

EVALUATION OF FIRM LEVEL ASSISTANCE GROUP (FLAG) PROGRAM IN BULGARIA

Prepared for
USAID/Bulgaria

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TABLE OF CONTENTS

| | |
|--|-----|
| Executive Summary | i |
| Glossary of Acronyms | iii |
| 1. Objectives and Methodology | 1 |
| 2. Country and SME Background | 3 |
| 3. The FLAG Program | 7 |
| 4. Firm Survey Summary | 12 |
| 5. FLAG Program Evaluation Findings | 19 |
| 6. Conclusions and Recommendations | 28 |
| Attachment 1: Statement of Work | |
| Attachment 2: List of Contacts | |
| Attachment 3: Sample Completed Survey Form | |
| Attachment 4: Summary of Survey Data | |

EXECUTIVE SUMMARY

This report is an evaluation of USAID/Bulgaria's Firm Level Assistance Grant (FLAG) program. Field work for the evaluation was undertaken from July 23-August 15, 2002, by a three-person evaluation team. The report identifies the critical success factors for further program development, and suggests potential improvements and options for program extension. Four specific topics are addressed:

- Impact of the FLAG program
- FLAG performance, program management, and implementation
- Issues of future demand for technical assistance and further assistance to the SME sector via the FLAG program
- FLAG program sustainability

Achievements

Since its inception in 1996, the performance of the FLAG program is reflected in the following achievements:

- \$25.5 million committed as a result of 39 business plans developed for financing private firms
- 24,984 jobs created and retained
- 15% increase in exports
- 12% increase in productivity
- 13% increase in domestic sales
- 87 companies introducing international management standards (ISO 9000, ISO 14000, GMP), of which 31 companies are already certified.
- 560 firms adopting western style business practices

Findings

- USAID through the FLAG Program was a pioneer in providing firm-level assistance to the SME sector in Bulgaria. Over the years, the FLAG program has achieved a leadership position as a technical assistance provider to Bulgarian SMEs even though other donors (EU, GTZ) have much larger and better-funded programs.
- FLAG has become a brand name and a symbol of American excellence and know how in Bulgaria. FLAG's successful management team has an extensive network of contacts in the Bulgarian business community and has helped the program earn a reputation of professionalism and credibility among Bulgarian SME managers.
- A distinctive feature of the FLAG model is the collaborative structure that enables the technical assistance providers to work together as equal partners in a consortium while maintaining their individual contracts or grants. This is an element that all the partners cited as critical to the model's operational success. Another important feature of the FLAG model is the use of American Volunteer Experts (USVEs) selected by the home office of Business Volunteer Providers, which offers a roster of over 14,000 experts with multifaceted, industry-specific expertise.

- Donor assistance for enhancing SME competitiveness is increasing, but is still very low relative to assistance to other priority SME areas. Without FLAG, there would be a big gap in donor assistance to the SME sector.
- The Program design and objectives have evolved over time in line with shifting needs of the SME sector, changes in USAID strategy, the expected phase out of USAID program in Bulgaria and planned transition to a self-sufficient entity.
- The Administrative Support Division (ASD) of FLAG was set up for reporting and coordinating purposes. Its reporting function is well developed and meets all the requirements of partners and USAID

Conclusions and Recommendations

- The FLAG program has successfully met its objectives from inception to date and there exists a strong future demand for the continuation of FLAG services.
- Factors to consider in designing the next phase of the program include: (1) a new target client base; (2) the USAID phase out strategy, (3) the expected transition of FLAG to a private entity; (4) the increased competitiveness of the SME assistance sector; (5) new perspectives on SME composition and (6) the new USAID private sector development strategy.
- The FLAG program is entering a competitive environment and will need to behave more and more like a private sector consulting company. That implies that the number of interventions must be reduced and focused on the most viable companies. The client universe of FLAG should be reduced as well, being limited to companies within those competitive clusters with the highest growth potential.
- The evaluation team considered several options for structuring a next phase of the FLAG program, including: (1) funding a more streamlined and focused version of the current FLAG model; (2) funding FLAG as a full fledged, locally registered organization; (3) phasing out funding of the FLAG program through a final transition grant; and (4) replacing the FLAG consortium model with a traditional USAID contract management mechanism. Taking into account the evaluation findings, the SWOT analysis, the SME environment in which FLAG operates, and USAID's near-term goal of phasing out of Bulgaria, the team recommends that USAID pursue Option 2, or a hybrid that would support Option 2 for a defined period of time and then phase out funding through a final grant as proposed under Option 3.

| | <i>Option 1</i> | <i>Option 2</i> | <i>Option 3</i> | <i>Option 4</i> |
|-----------------------|------------------------|------------------------|------------------------|------------------------|
| Funding | Limited savings | Significant savings | Some savings | Some savings |
| Sustainability | High potential | Yes | High potential | Limited |
| Impact | High | High | High | Limited |
| FLAG Brand | Limited | High | High potential | No |
| Administrative Burden | High | High | Reduced in time | Reduced |

GLOSSARY OF ACRONYMS

| | |
|---------|--|
| ASD | Administrative Support Division (of FLAG) |
| ASME | Agency for Small and Medium (sized) Enterprises |
| BACB | Bulgarian-American Credit Bank |
| BAEF | Bulgarian-American Enterprise Fund |
| BARDA | Bulgarian Association of Regional Development Agencies |
| BCCI | Bulgarian Chamber of Commerce & Industry |
| BIBA | Bulgarian International Business Association |
| BSO | Business Support Organization |
| CDC | Citizens Democracy Corps |
| CFA | Certified Financial Analyst |
| DEG | (German Investment & Development Company) |
| DCA | Development Credit Authority |
| DFID | Department for International Development |
| EBRD | European Bank for Reconstruction and Development |
| EIB | European Investment Bank |
| EMED | Entrepreneurial Management Educational Development |
| ERGO | Economic Reform and Growth Office |
| EU | European Union |
| FED | Foundation for Enterprise Development |
| FIB | First Investment Bank |
| FLAG | Firm Level Assistance Group |
| GMP | Good Manufacturing Practices |
| GOB | Government of Bulgaria |
| GTN | Global Trade Network |
| GTZ | German Agency for Technical Cooperation |
| HAACP | Hazard Analysis and Critical Control Points (of U.S. Food and Drug Administration) |
| IAS | International Accounting Standards |
| IESC | International Executive Services Corps |
| IFC | International Finance Corporation |
| IME | Institute for Market Economy |
| IPC | <i>Internationale Projekt Consult</i> (a German consulting firm) |
| KfW | <i>Kreditanstalt für Wiederaufbau</i> (German development bank) |
| LOL | Land of Lakes |
| LPG | Loan Portfolio Guarantee |
| MOE | Ministry of Economy |
| MSED | Micro and Small Enterprise Development |
| NGO | Non-governmental Organization |
| NORFUND | Norwegian Investment Fund for Developing Countries |
| PHARE | Poland, Hungary Assistance for the Reconstruction of Europe |
| PVO | Private Voluntary Organization |
| REDA | Regional Economic Development Agency |
| SEAF | Small Enterprise Assistance Funds (previously CARESBAC) |
| SECO | Swiss State Secretariat for Economic Affairs |
| SME | Small and Medium (sized) Enterprise |
| SOE | State Owned Enterprise |
| SOW | Statement of Work |

| | |
|-------|--|
| STTA | Short Term Technical Assistance |
| TA | Technical Assistance |
| TDC | Trade Development Center |
| UBB | United Bank of Bulgaria |
| UD | University of Delaware |
| UNDP | United Nations Development Program |
| USAID | United States Agency for International Development |
| USVE | United States Volunteer Executive/Expert |
| VAT | Value Added Tax |
| WB | World Bank |

EVALUATION OF THE FIRM-LEVEL ASSISTANCE PROGRAM

1. OBJECTIVES AND METHODOLOGY

1.1 Objectives

At the request of USAID Bulgaria, the Checchi/Louis Berger Joint Venture fielded a three-person evaluation team in Bulgaria from July 23 – August 15, 2002. The team consisted of Michael Sipos (Team Leader), Karen Potter, and Latinka Popova, who served as interpreter/coordinator. The purpose of the visit was to conduct an evaluation of the Firm Level Assistance Group (FLAG) program, which has delivered extensive technical assistance to private sector small and medium enterprises (SMEs) with the goal of increasing private sector growth in Bulgaria. The FLAG program is implemented by a Consortium of US PVOs and one university, and has been operational since April 1997. This evaluation addressed the effectiveness of FLAG's structure, implementation of support activities, and results achieved for the period of April 1997 to date. The FLAG program contributes to USAID/Bulgaria Strategic Objective (SO) 1.3 "Accelerated Development and Growth of Private Enterprises in a Competitive Environment."

According to the SOW, the evaluation's principal objectives were as follows (Attachment 1 contains the complete SOW):

1. To assess the impact of FLAG's program on their clients' business performance (against the indicators of jobs, sales and export growth) in order to determine whether activities are achieving overall objectives and program scope, and to verify the impact information as collected and reported by FLAG;
2. To examine FLAG's performance, program management and implementation;
3. To assess the overall efficiency of the FLAG mechanism over the years;
4. To provide recommendations regarding potential future demand and further assistance to SMEs (via the FLAG mechanism);
5. To comment on the FLAG program's sustainability and replications of its benefits to firms.

The SOW asked the evaluation team to analyze both strengths and weaknesses of the FLAG program and to closely examine the various types of activities implemented under the program. The purpose is to determine whether FLAG's approach, as currently designed and implemented, is able to effectively address private sector needs, as well as assist SMEs and competitive industry clusters in Bulgaria. Further, the evaluation should address what changes could be implemented to improve any potential future programs either under the present FLAG approach or other alternatives.

1.2 Methodology

The FLAG Evaluation Team adopted the following methodology to accomplish USAID's stated objectives:

Both at the outset and throughout the evaluation, the team reviewed significant documentation. Among these were included: FLAG cooperative agreements, quarterly and annual reports; assessments, studies, strategies, and reports produced by FLAG, as well as other organizations; website resources of FLAG, GOB and other organizations; other USAID SME-related sur-

veys/reports; and documents provided by a range of Bulgarian organizations, international donors and fund providers.

A list of individuals contacted over the course of the evaluation is provided in Attachment 2. Before departing for Bulgaria, Karen Potter and Michael Sipos conducted extensive interviews (both by telephone and in Washington DC) with key representatives of IESC, ACDI/VOCA and University of Delaware/FLAG International to determine their roles, responsibilities, project management monitoring mechanisms and contribution to the FLAG program. Additionally, Ms. Potter and Mr. Sipos interviewed relevant USAID Washington DC staff directly involved in the FLAG program, presently or in the recent past.

Upon arrival in Bulgaria, the team members (including Latinka Popova) met with USAID ERGO and the FLAG partners (IESC, ACDI/VOCA and UD) to obtain an in-depth briefing and historical perspective of the program and its evolution from their respective viewpoints. Interviews of two-three hours each were conducted with the FLAG partners' country representatives/directors and staff. Additional meetings followed, during the course of the evaluation, to obtain more detailed information and provide clarification to key questions/issues identified during other donor and firm interviews conducted by the evaluation team.

At the macro and intermediary levels, the evaluators interviewed GOB agencies, other donor organizations, financial institutions and funds, and donor supported projects/organizations with the objective of understanding: their programs, particularly relative to SME support; areas of duplication with FLAG's program; levels of coordination and cooperation with FLAG; their assessment of the FLAG program and its impact on SME development; and identification of short-term opportunities and constraints within an SME development context.

At the SME level, the team conducted a detailed nationwide survey of firms over nine days, during which a sample of FLAG's clients was interviewed. The surveyed firms were selected from a list of 20 companies provided by each of the three FLAG partners (60 in total) and were indicative of the types of FLAG clients supported throughout the lifespan of the program. Specific questions regarding their businesses, types/impact of FLAG assistance received and desired, and macro issues/constraints to their development were posed. A standardized questionnaire was developed in order to provide uniform information and quantify responses. While results of this data review cannot be considered statistically significant because population numbers were limited (geographically and quantitatively) by time availability constraints, we found that responses were generally consistent within and among the industry clusters and total survey sample on most subject areas. Regarding validation of FLAG's impact on client SMEs and results achieved, the survey questionnaire requested information on employment, sales and export levels pre and post FLAG assistance. While most firms responded, often it was in general terms or trends. Nonetheless the overall impact of assistance and result trends can be considered valid.

The evaluation team also looked at the general economic climate, the existing environment for SME development, existing policies, weaknesses/strengths, and entrepreneurship/enterprise development in general in Bulgaria. FLAG's current and future role in enhancing Bulgaria's global competitiveness by focusing on the growing SME sector was evaluated within this overall context.

The draft report and key findings were presented to the Economic Reform and Growth Office of USAID/Bulgaria (David Lieberman, Ed LaFarge, Nora Ovcharova and Nikolay Yarmov), as well as other staff members of the mission, on Wednesday, August 14, 2002. On the same day, Mi-

chael Sipos presented a summary of the evaluation findings and recommendations to U.S. Ambassador Perdew.

2. COUNTRY AND SME BACKGROUND

2.1 Country Background

Bulgaria, officially known as the Republic of Bulgaria, is strategically situated at the center of the Balkan crossroads between Europe and Asia. The total population is just under 8 million and has been decreasing in recent years as people, especially the younger generation, move away in pursuit of better opportunities. This “brain drain” may have important negative repercussions for Bulgaria’s future growth if it isn’t stemmed.

In 1996 and 1997, Bulgaria suffered a severe economic decline marked by triple digit inflation and GDP contraction of 10.6% and 6.9% respectively. The government that took office in May 1998 worked to restore growth by implementing a currency board; introducing sound financial policies; revitalizing privatization; and undertaking structural reforms. Critical to turning the economy around was the support of international financial institutions including the IMF, which approved in September 1998 a \$900 million three-year Extended Fund Facility.

After several difficult years, Bulgaria’s economy stabilized and actually performed better than expected in the face of the Kosovo crisis, the 1998 Russian financial emergency, and structural reforms. GDP growth was almost 5% in 2000 declining to 4% in 2001. Growth is expected to continue, albeit at a lower rate given the current global economy/financial markets, assuming Bulgaria maintains its fiscal restraint, institutes additional structural reforms, and receives continued international aid.

By maintaining a path toward reforms and democratization, Bulgaria has moved in the direction of eventual integration into NATO and the EU – with which it began accession negotiations in 2000. This reorientation to the West and the aforementioned memberships is now the focus of Bulgaria and is of significant importance to both its political and economic future.

2.2 The SME Universe

As of calendar year (CY) 2000, there were 350,000 officially registered SME companies in Bulgaria, of which 220,000 were operational (i.e. submitting annual balance sheets and paying taxes). This is according to the national statistics cited by the Foundation for Enterprise Development (FED), which was commissioned by the Agency for SMEs (ASME) to gather statistics and conduct a survey of SMEs’ growth and development impediments. SMEs are defined, by USAID, as companies employing up to 250 people.

As an overview, SMEs employing up to 250 people represent 99% of all registered and operational companies in Bulgaria. They contribute 51% of employment and 38% of “gross value-added” to the economy (32% of gross value-added is contributed by firms with up to 100 employees). Sixty-two percent of GDP is accounted for by just one percent of Bulgarian enterprises.

2.3 Constraints to SME Development and Growth in a Competitive Environment

The FED surveyed 1200 SMEs (0.5% of the total) in CY 2000 and reported the following responses regarding SMEs' perceived macro constraints to business growth:

Macro Constraints to Growth of SME Sector (1)

| % of Surveyed Firms Responding | Macro Constraint Cited |
|--------------------------------|---|
| 71% | Lower demand for goods/services due to < purchasing power |
| 44% | High taxes |
| 43% | Lack of capital for investment |
| 28% | Unfair competition from unregistered firms/gray economy |
| 23% | Bureaucratic red tape, corruption, malfunction of public administration |

(1) Source: FED CY 2000 SME Survey of Impediments to Growth

Of the 1200 firms surveyed by the FED, less than 10% are involved in international activities; this is representative of the national distribution. The macro constraints cited by internationally active SMEs versus those with a domestic-only orientation are shown in the following table according to their priority:

Macro Constraints to SME Growth by International vs. Domestic Sales Focus (1)

| Constraints Ranked by Priority | International Focus | Domestic Focus |
|--------------------------------|---------------------|----------------|
| Lower Demand | 2 | 1 |
| Lack of Access to Capital | 1 | 2 |
| Taxes & Bureaucracy | 3 | 3 |

(1) Source: FED CY 2000 SME Survey of Impediments to Growth

According to the FED survey results, constraints at the firm-level include the following: continued need for practical, industry-specific business skills encompassing functional as well as technical areas; continued improvement in business support systems and access to current, relevant information/data; availability of financing and investment capital; access to advanced technology and equipment (contingent on cluster); identification of foreign contacts and due diligence on same; organizational management; enhancement of staff skills, motivation, performance and work ethic (change from socialist to market orientation) - this constraint varies by industry cluster.

2.4 SME Impact on Bulgaria's Development

Bulgaria has to stimulate economic growth. And based on the aforementioned statistics, efficient, competitive, market-oriented SMEs will be the primary engine that will drive job and income creation. However, economic transformation depends on an enabling environment (policies, laws and regulations) that allows the adoption of new business practices and the forging of business networks/linkages. This is important given Bulgaria's desire to join the EU, which will require companies to prepare for both regional and international competition. They are willing to make these changes but must develop skills in modern management, strategic business planning, marketing, appropriate production/technology, market information, as well as well-functioning banking and financial services sectors in order to succeed.

Importantly as noted in point 2.2 above, SMEs account for 99% of enterprises in Bulgaria but less than 40% of GDP. These statistics have broad implications for donor assistance efforts. The types of programs required to address such a skewed sector situation should be tailored to the SMEs' needs, going beyond the standard managerial training and classic technical assistance approach.

Enterprise linkages including domestic and export, distribution and supply channels, procurement and e-commerce are some of the areas affected by the polarized composition of the Bulgarian enterprise sector. Because of its pioneering role and early positioning in this area, the FLAG program is naturally poised to quickly and comprehensively address these SME issues.

2.5 Donor Assistance to the SME Sector

Annual disbursements in Bulgaria under projects supportive of SMEs amounted to an estimated \$60 million US dollars in 2000; this funding was delivered by 24 donors, including 15 bilateral and 9 multilateral donors. Leading multilateral donors include the European Union (EU), the European Bank for Reconstruction and Development (EBRD), the World Bank/IFC, the European Investment Bank (EIB), and the UNDP. Among leading bilateral donors are the United States, Germany, Switzerland, the United Kingdom, and the Netherlands. The following summary is based on 1998-2000 data, the most recent available.

Total European Union grant-financed pre-accession assistance to Bulgaria is now running at almost \$300 million a year. This is the highest amount to any candidate country, apart from Poland and Romania, and is equivalent to about 2.5% of Bulgaria's GDP. The EU is also the largest provider of multilateral assistance to Bulgaria's SME sector, disbursing an estimated \$38 million during a recent three-year period (1998-2000). Most technical assistance to this sector is channeled through the EU Phare Programme and focuses on strengthening SME support services. It includes a number of existing and planned projects to support and strengthen the agribusiness sector as Bulgaria prepares for membership in the EU.

EBRD is also a substantial donor, with disbursements under its Bulgaria programs of \$31 million in the period 1998-2000. EBRD programs and projects address the developmental challenges for SMEs in Bulgaria by supporting private sector growth through technical assistance and financing facilities. One of the key goals is to expand the number of banks utilizing the EU Phare Programme's SME Facility, which is managed by the EBRD and includes loan, leasing and equity instruments. The EBRD is seeking wider geographic coverage of micro, small and medium size enterprises through select partnerships with Bulgarian banks and under its own Direct Investment Facility program. Its technical assistance programs support institution building and the imple-

mentation of effective lending programs. Some of the more recent EBRD disbursements include equity investments in ProCredit Bank (\$23 m) and Union Bank (\$3 million) for small business finance and a \$6 million SME facility at Hebros Bank.

EIB has an outstanding portfolio of \$909 million covering 19 projects in transportation, energy, telecommunications, environment, industry and SMEs, of which \$190 million have been signed since June 2000. EIB plans to focus its efforts on (i) priority projects which will prepare Bulgaria for EU accession, specifically focusing on transport, energy, and environmental protection; (ii) support for the development of SMEs; and (iii) support for private sector projects with international sponsors.

UNDP is another important donor that has traditionally supported the SME sector in Bulgaria. Disbursements under its projects amounted to \$1.36 million in 1998-2000; however, it is necessary to stress that UNDP was the executing agency for important projects co-financed with other donors. UNDP assistance to the SME sector is of three types: SME training support, SME consultancy support and SME support services institutions.

Among bilateral donors, United States leads a group of countries that include Germany, Switzerland, the United Kingdom, and the Netherlands.

Germany provides diversified support to Bulgaria's SME sector. With total disbursements of \$22.9 million, or 12.5 % of all bilateral disbursements, Germany was the second largest bilateral donor and fourth among all donors supporting SME development in Bulgaria in the 1998-2000 period. Among the 33 projects implemented with German support there were 20 important projects aimed at strengthening the system of SME support services. Six projects were aimed at facilitating SME financing and two at improving export competitiveness and SME internationalization. Another two projects supported the establishment of the legal framework and state policy regarding SMEs.

Switzerland implemented projects with total disbursements of \$4.8 million in the period 1998-2000. Swiss support to SMEs was aimed mainly at improving SME export competitiveness and internationalization and for strengthening the system of SME support services. A significant part of this support was concentrated in selected regions through comprehensive, practically oriented technical assistance programs.

The United Kingdom ranked eighth among all donors with \$4.7 million in support of SME development during 1998-2000. Important projects implemented with UK support focused on strengthening the system of SME support services, export promotion, and improvement of state policy on SME development

The Netherlands was ninth among the donors supporting SMEs in Bulgaria with disbursements of \$3.57 million in 1998-2000. A substantial part of this assistance was aimed at strengthening the system of SME support services and their export competitiveness.

As of December 2000, donor disbursements for SME assistance were concentrated in four areas, prioritized as follows:

1. Assistance for the establishment and strengthening of services to SMEs (41%)
2. Facilitation of financing and credit access for SMEs (39%)
3. Improvement of SMEs' export competitiveness and global market orientation (6%)

4. Development of a legal framework and national policy supportive of SMEs (14%)

External assistance for the establishment of a sustainable system of SME support service has evolved from funding general-purpose programs to more flexible projects corresponding to the specific needs of SMEs. In line with the need for Bulgaria to stimulate economic growth, the focus of donor aid in the last few years has shifted towards programs that create sustainable, long term employment through enhancement of SMEs' competitiveness both domestically and internationally. This is a trend expected to continue in the future. Another trend among the multilateral donors has been an increased emphasis on concessional lending at the expense of grant funding for technical assistance projects.

The following points regarding donor assistance to SMEs are important and have implications for the future of FLAG. First, USAID and the FLAG Program were early pioneers in developing firm level assistance programs for SMEs. Other donors (in particular Germany, Canada and Switzerland) have since entered or are entering the field. Second, although donor assistance for "enhancing SME competitiveness" is increasing, it is still quite modest compared to other SME areas of assistance. Therefore without FLAG, there would be a large gap in support focused on development of the SMEs' competitiveness levels.

3. THE FLAG PROGRAM

3.1 Background and Objectives

During the initial period of USAID assistance to develop the private sector, 1991-1993, USAID contracted with individual PVOs and universities to deliver technical assistance, via volunteers, to firms (SOEs and private) and municipalities. From 1993-1996, the focus shifted assistance to private SMEs, particularly those in the industries of agriculture and food processing, machine engineering, franchising, tourism/hotels operations, light manufacturing, and construction. Firms were selected for assistance based on these main criteria: specific and demonstrable need; management experience; available firm-level resources to implement the assistance provided. TA continued to be provided by volunteers, with average assignment periods of 3-4 weeks and longer periods when piggyback projects were undertaken.

In late 1996, responding to a call from USAID to assist Bulgarian private firms to accelerate growth in a competitive environment, USAID contractors and grantees came together with a new concept, a focused strategy, and unique model for delivering support to the Bulgarian private sector. They elected to pool their resources, skills, and experience in order to improve client reach, service provision and impact. The consortium became known as the Firm Level Assistance Group (FLAG). The organizations developed a Team charter with a new organizational structure, policies and procedures. FLAG was (and continues to be) funded through individual Cooperative Agreements. This new concept was officially implemented in April 1997 with seven partners: IESC; ACDI/VOCA; UD; CDC; LOL; World Learning/EMED; MBA Enterprise Corps. From 1997-1999, FLAG focused on institutional strengthening of BSOs/ISOs (membership development, services, advocacy, etc.); this included utilizing them as a distribution channel for FLAG assistance and services to their members.

From 1999 to present, FLAG moved to an industry cluster client approach for optimizing assistance to those clusters having the strongest opportunity for achieving accelerated growth per SO 1.3. Cluster assistance is focused on attaining: operational (i.e. efficiency, productivity, quality

and cost control) and management improvements; export growth development through the TDC, trade shows, GTN registry, promotional activities; buying office contact identification and contract facilitation, etc. as means of increasing job and sales growth and competitiveness. FLAG's provision of industry/cluster specific consulting expertise is an important component of this approach.

During its existence, FLAG has worked on facilitating private business growth in target sectors by focusing assistance on such Bulgarian SME problem areas as: limited capability in market-oriented product development; low productivity; inexperienced management; limited market information and access to foreign markets; poor access to sources of financing; lack of sophisticated corporate governance and business planning skills; inadequate accounting systems and financial management; and the slow-pace of structural market reform.

3.2 Organization and Staffing

A Cooperative Agreement that details the specific roles and responsibilities of the FLAG partners governs the FLAG model. It has been renewed every 18 months since FLAG's inception. Organizationally, FLAG is comprised of three functional work groups. First is the Board of Directors (BD) consisting of each FLAG partner's Project Director (three total). The Board sets policy and has ultimate operational responsibility for the program. Second is the Operations Board which includes the members of the BD and the Chairpersons of the three operating committees: Marketing/Screening (currently not operational); Diagnostics/ Intervention; and Monitoring/Evaluation. The Operations Board coordinates the daily functions of FLAG. Third is the Administrative Support Division (ASD) whose responsibilities include: coordination of FLAG partners' activities; generation of consolidated quarterly and annual reports, based on the individual FLAG partners' reports; presentation of FLAG activities and dissemination of information/data to USAID, FLAG clients, and others. It should be noted that each partner handles its own financial information.

The Operations Board and the operating committees meet weekly; the BD meets as needed. The partners are located in the same office building, thereby facilitating interaction among the members and presenting a unified image to the public. Initially the organizations had developed a coordinated strategy for cross marketing of FLAG's services. However, presently there is no unified annual marketing plan for FLAG. Hence each partner markets its services individually and even competes with the other FLAG partners for clients. Collaboration arises when there are multiple interventions or complementary services required by a client.

3.3 Activities Undertaken by FLAG Partners

Since its establishment in 1997 FLAG has been providing direct technical assistance, trade facilitation, and training to SMEs through development of tailored assistance packages. FLAG also serves as a market and new technology information channel to industry clusters and private Bulgarian companies, and assists their participation at trade shows.

Technical Assistance: STTA by USVE is used extensively to fulfill FLAG developed customer-tailored assistance packages, based on client's specific needs. The STTA areas include, but are not limited to general management, marketing and sales, human resources management, production operations and quality assurance systems, accounting and finance, and strategic planning.

Market, technology and information services: FLAG provides marketing, market research, product evaluation and information services to support Bulgarian companies access and develop export markets

Training (US and third-countries based): FLAG has designed and implemented a number of training programs in the US for Bulgarian managers, association leaders, and consultants. They have also attended seminars, courses, trade shows. US and regional training has fostered long-term business network development.

Training (in-country): FLAG also provides in-country group seminars, training modules, workshops and presentations by US and local experts ranging from general to industry-specific topics, including production and corporate management, marketing, advertising, and development of business plans and credit application packages.

Trade Show and Business Visits Assistance: FLAG identifies high potential trade shows for contacts between Bulgarian companies and foreign buyers as part of its effort to promote exports. FLAG provides expert pre-show, at-the show and follow up assistance for facilitating transactions.

Developing Business Plans: FLAG consultants develop business plans for companies seeking debt or equity financing and present them to financial institutions and potential investors.

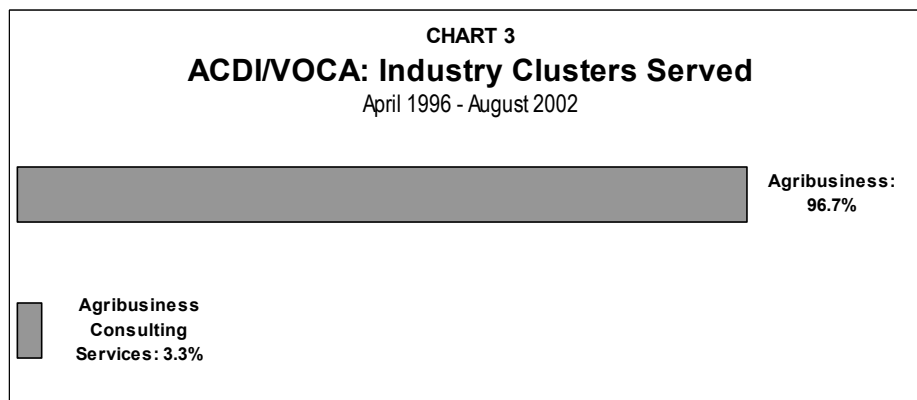
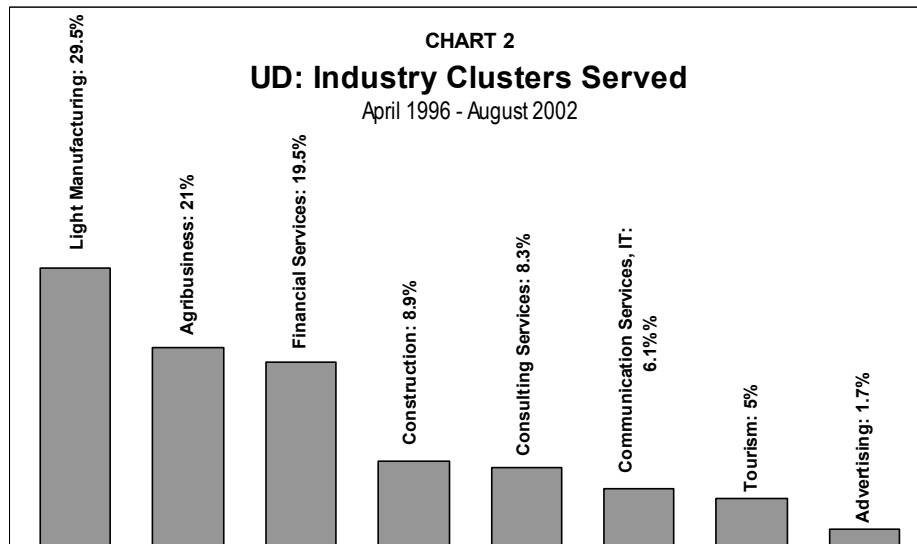
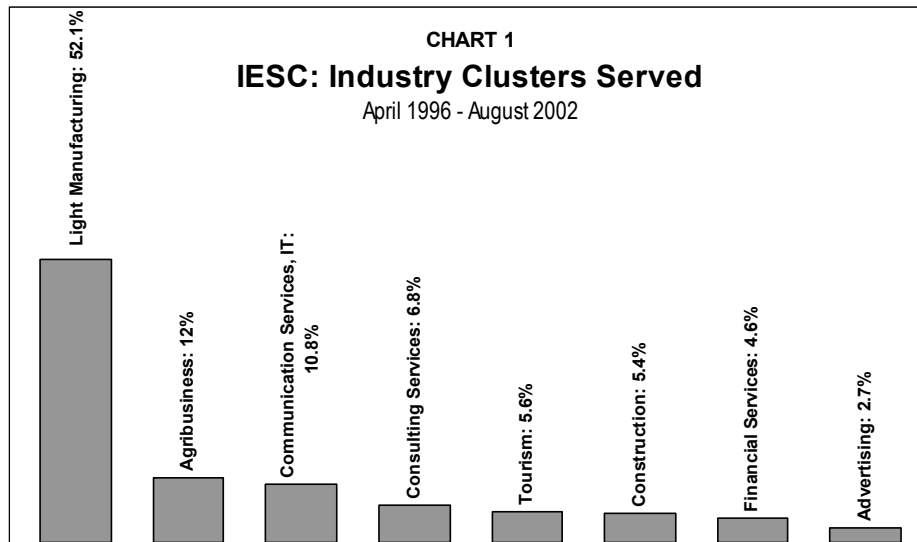
Quality Management Systems: FLAG provides technical and financial support to Bulgarian companies for ISO, HACCP, and GMP certification.

To date, FLAG reports that it has delivered 1,431 direct technical assistance interventions (1,147 to small and medium-sized private firms, 132 to professional and business associations, 57 to consulting companies, 54 to Intermediary Support Organizations, 26 to privatization funds and holding companies, 15 to pension funds). In addition, FLAG has performed numerous piggyback assignments and assistance projects.

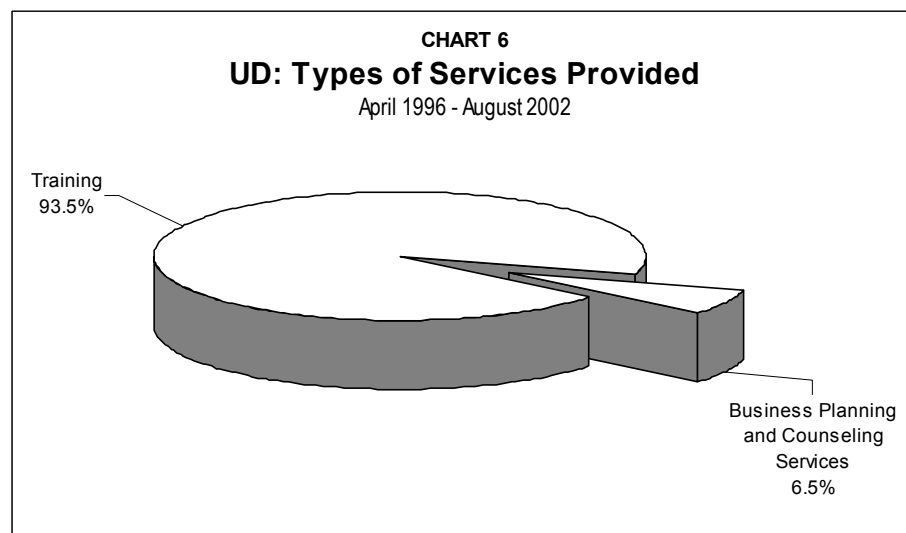
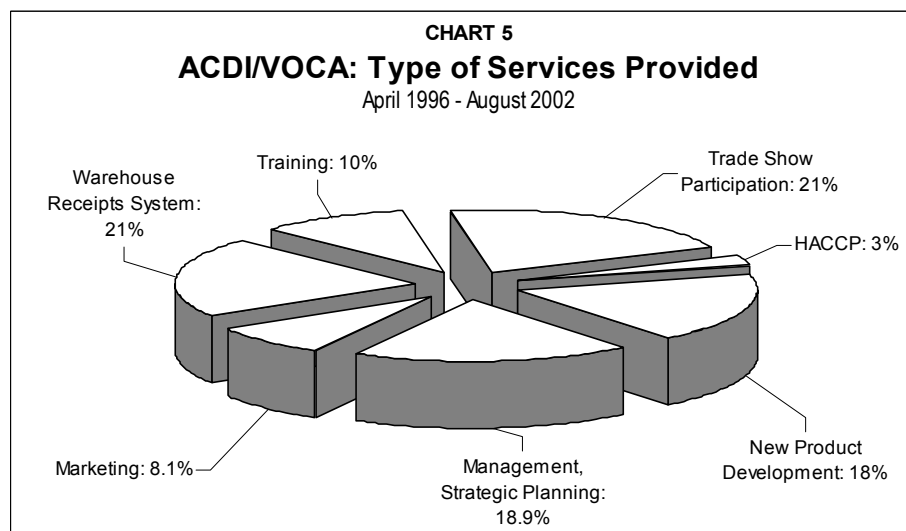
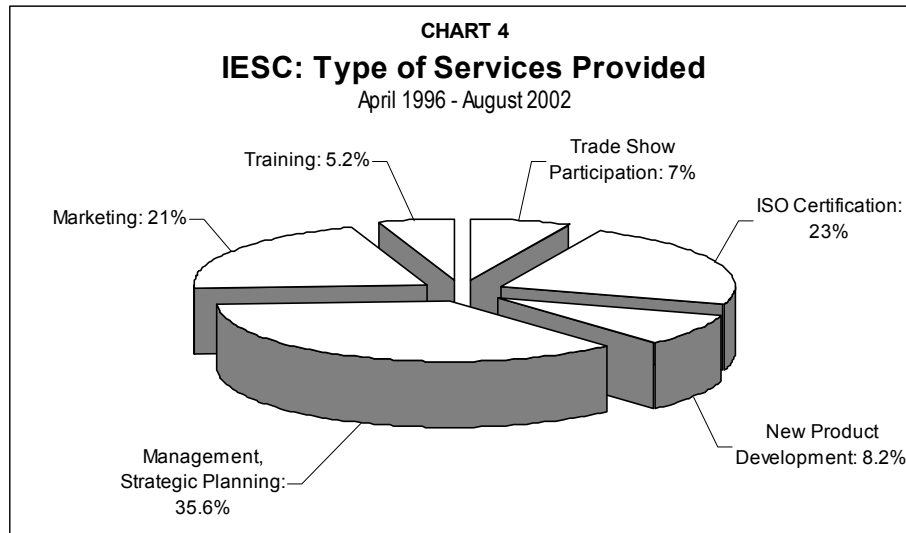
A breakdown of FLAG clients by industry cluster is provided for each FLAG partner in Charts 1-3 on the next page. Since the inception of the FLAG project, light manufacturing firms have made up more than 50% of IESC's clients and nearly 30% of companies assisted by UD.

ACDI/VOCA's services have been targeted exclusively at the agribusiness sector, although agribusinesses also represent significant shares of UD's and IESC's clientele (21% and 12% respectively). Other sectors accounting for more than 10% of an individual FLAG partner's total are financial services (19.5% for UD) and communications (10.8% for IESC).

As shown in Charts 4-6, IESC and ACDI/VOCA provide a fairly wide range of services. For IESC, the largest single element has been management/strategic planning (about 36%), followed



Source: USAID/Bulgaria and FLAG Report Database



Source: USAID/Bulgaria and FLAG Report Database

by assistance with ISO certification (23%) and marketing (21%). For ACDI, the most significant types of services have been related to trade show participation and warehouse receipts systems (both 21%), followed by management/strategic planning (19%) and new product development (18%). Trade show participation and new product development interventions are less significant elements for IESC. UD has focused almost exclusively on training services (93.5%), but has also provided limited technical assistance with business planning, financing, and management (6.5%).

4. FIRM SURVEY SUMMARY

4.1 Background and Methodology

A survey of FLAG assisted SME firms was conducted by the evaluation team, either jointly or individually, to determine: the current demand by type of assistance and provider; FLAG clients' assessment of the interventions received to date and its impact on firm performance; tangible results vis-à-vis FLAG indicators (spot check); critical success factors attributable to FLAG support; future demand by type of assistance; perceptions of key constraints at the macro-economic/political level.

The survey provided a sampling of FLAG partners' programs and client/cluster profiles. The survey sample was selected from a base of 60 companies, of which 20 companies were provided by each FLAG partner according to the following criteria: types of assistance by provider; industry clusters; firm size; geographic distribution; export vs. domestic sales; and ownership gender. All of the aforementioned was conditioned on the firms' availability to meet with the evaluation team on very short notice, given the project timeframe coupled with firm managements' annual leaves and travel schedules. While statistically the sample is not representative of the universe of FLAG client companies, efforts were made to ensure that the sample reflected a mix of industry clusters, industry sizes, and types of assistance services, and that it covered the major geographic regions where FLAG has been active.

A comprehensive survey questionnaire was utilized incorporating the SOW issues to be addressed by the evaluation team (see Attachment 3 for a sample of a completed questionnaire). The questionnaire enabled standardization of interviews and comparative analysis of responses across firms, by partner, and by types of assistance. The summary of results, key findings and conclusions are all based on the survey questionnaire responses.

Generally the senior management or owner(s) of each firm were interviewed regarding specifics of FLAG support and actual services received vis-à-vis requests and needs. The responses were quite homogeneous and candid regarding assessment of FLAG assistance and major macro issues impacting the overall enabling environment for Bulgarian SME private sector development in which USAID and the overall donor community can play a critical role. These responses can be considered a validation of the FLAG program's impact on the firms' performance results. However, specific employment, sales and export numbers are not necessarily verifiable due both to the nature of the interviews and the individual interviewees. The interviews averaged one to two hours in duration and usually required translation. While most interviewees did their best to answer each question completely, they did not always have their records available, so they provided rounded numbers or performance trends to the aforementioned indicators. Furthermore, the evaluation team did not have the capability of reviewing records and determining accuracy of numbers within the time constraints of the evaluation project. It should also be noted that the interviewee was not always the same individual who responded to the FLAG evaluation reports.

4.2 Analysis of Survey Questionnaire Responses

4.2.1 Highlights

A total of 27 enterprises (26 SMEs and 1 BSO)¹ were formally surveyed in nine cities over nine days; all clusters were represented in the survey. Of that total, the sample distribution by FLAG partner was: IESC – 14 enterprises; ACIDI/VOCA – 12 enterprises; University of Delaware – 7 enterprises. These numbers total more than 27 because several firms received assistance from more than one FLAG partner. More specifically, if a firm received an intervention from both IESC and UD, the firm was counted as a client of each partner.

All numbers and percentages stated in this survey analysis, and the supporting Attachment 4, reflect the following: 1) multiple interventions by a single FLAG partner; 2) assistance to firms by multiple FLAG partners; 3) firms responding with definitive answers to specific questions asked. Regarding the last point, if a firm did not provide information regarding employment or sales levels, then that firm cannot and is not included in the percentage calculation for that factor. Consequently, percentages may not total 100% in many instances.

Firms exporting on a regular basis numbered 16 or 59% of the total sample surveyed; 7 firms or 25% of the total survey only engaged in domestic sales. The remaining 16% of firms engaged in sporadic exporting on an opportunistic basis. Regarding ownership status, 81% of the total firms surveyed were 100% private; and 33% of firms had at least one female owner, among those responding to the gender question. The majority of firms employed women at a significant level, among those responding to the worker gender query. Among those firms providing data on employment levels, the client's size distribution by FLAG partner, including multiple provider assistance, was as shown in the following table.

Survey's Firm Employment Size Distribution by FLAG Partner (1, 2)

| FLAG Partner | 10 – 50 Employees | 51 – 100 Employees | 100+ Employees |
|--------------|-------------------|--------------------|----------------|
| IESC | 21% | 14% | 43% |
| ACDI/VOCA | 33% | 25% | 33% |
| UD | 14% | 14% | 43% |

1) *Not all firms responded; hence totals don't equal 100%.*

2) *Firms receiving assistance from several partners are counted as a client of each partner and reflected in the percentage calculation.*

4.2.2 Current and Future Demand for FLAG Services

The current demand for FLAG services is represented by the specific activities/programs received to date. According to the number of recipients, they were in order of importance: Consulting by USVE (U.S.A. volunteer experts) providing short-term technical assistance (STTA or TA) including technical/production-oriented advice, business/marketing plans and new market/product development - 23 firms or 85% of the survey; Seminar training of employees in industry-specific

¹Face-to-face or telephone interviews were conducted with a total of 32 enterprises. The data from five interviews was either incomplete or not of sufficient depth to be included in the formal survey analysis. However, the information obtained through these five interviews was reviewed by the evaluators and found to be consistent with the overall survey findings.

technical issues and functional skills – 18 firms or 67% of the survey; Trade shows and U.S. study tours – 9 firms or 33% of the survey; ISO/HAACP/GMP training and certification assistance – 7 firms or 26% of the survey; GTN registration – 4 firms or 15% of the survey. Of additional importance to the firms were the on-going FLAG support, advice and follow-up received and FLAG's ancillary support through BSOs.

The future demand for FLAG services was consistent with the aforementioned in terms of the top three support activities priorities: Consulting by USVE; seminar training; and trade shows. The next six types of assistance in order of importance were: information on contacts via the buying offices, TDC or other sources; financing and credit access and information; GOB policy issues; ISO/HAACP/GMP training; and lastly the GTN. Attachment 4 summarizes the type of assistance received by provider, current demand status, performance impact, future demand, and critical success factors from the firm surveys.

In terms of specific activities/programs received to date, they were in order of importance according to the number of recipients: Consulting by USVE (U.S.A. Volunteer Experts) providing short-term technical assistance (STTA or TA) including technical/production-oriented advice, business/marketing plans and new market/product development - 23 firms or 85% of the survey; seminar training of employees in industry-specific technical issues and functional skills – 18 firms or 67% of the survey; trade shows and U.S. study tours – 9 firms or 33% of the survey; ISO/HAACP/GMP training and certification assistance – 7 firms or 26% of the survey; GTN registration – 4 firms or 15% of the survey. Of additional importance to the firms were the on-going FLAG support, advice and follow-up received and; FLAG's ancillary support through BSOs.

4.3 Key Findings from Survey Responses

The following summarizes key findings based on the surveyed firms' assessment of interventions/services received.

4.3.1 Overall Assessment

FLAG's support services and consultants were unanimously held in high regard and considered as valuable contributors to the firms' development. The majority of firms felt that they would not have achieved the same results in the same timeframe without FLAG's involvement, irrespective of when that commenced, or with financial assistance/grants alone. In addition to the specific FLAG services received, the ongoing professional advice and coaching provided by FLAG's staff were considered important to the firm's long-term market-orientation and commercial success.

4.3.2 Consulting TA Support Represents the Highest Current/Future Demand and Impacts Performance

The majority of firms felt that FLAG's consulting support was the most critical to their business' development. Those 85% of surveyed firms that received such FLAG assistance (be it technical/diagnostic, functional or business planning support) believed they performed better than they would have without it. Firms requesting this type assistance in the future represented 70% of the survey. In particular, the request for specialized expatriate expertise has been strong throughout the evolution of FLAG's program. Extensive use has been made of the USVEs both prior to and during FLAG's program. Most firms feel that specialized industry and functional expertise is critical both early on in, and throughout, the support program so that mistakes are avoided and efficiencies can be realized at the outset. The impact of this activity on both management and

firm level performance is not to be underestimated, according to the surveyed firms, as it allows them to avoid costly and time consuming mistakes via “lessons learned” from the USVEs.

Although these support activities can be difficult to directly or accurately correlate with FLAG indicators of jobs and sales impact, the following table summarizes the firms’ assessment of tangible performance impact:

Tangible Performance Impact of FLAG Assistance
Percentage of Firms Reporting Increases Due To STTA (3, 4)

| | > Jobs | > Sales | >Technology and/or Production Levels | > Market or Product Expansion | > Access to Finance/Credit |
|-----------|--------|---------|---|----------------------------------|-------------------------------|
| IESC | 43% | 79% | 50% | 14% | |
| ACDI/VOCA | 25% | 8% | 50% | 42% | |
| UD | | | | | 14% |

- 1) *Results are based on those firms responding specifically to the questions of FLAG impact on their performance in the aforementioned areas.*
- 2) *Firms receiving assistance from several partners are counted as a client of each partner and reflected in the percentage calculations.*

4.3.3 Critical Success Factors of FLAG Assistance to Firms’ Development

The single most valuable service provided by FLAG, in the opinion of the surveyed managers, was exposure to and development of market-oriented Western management practices, planning and problem-solving skills. This factor was consistently cited across all the types of assistance provided by FLAG partners including training, trade shows, and study tours as well as consulting TA. The managers viewed the aforementioned as critical to their long-term commercial viability and competitiveness; something they could not have achieved without the direct assistance of FLAG, and particularly the US VEs. While this is a soft, indirect FLAG output based on subjective views, it is of fundamental importance to building the Bulgarian SME private sector. These perceptions qualitatively reflect the Bulgarian management’s seriousness, willingness to learn, accept and adapt Western management practices, and commitment to attitudinal changes that have / will permeate throughout the organization to yield tangible long-term results. Notably, this is an orientation that cannot be delivered by Bulgarian consultants alone since they have neither the experience nor direct practical expertise in Western management practices and advanced technology gained through hands-on industry work.

4.3.4 Success Stories Attributable to FLAG Assistance

Many firms were able to cite specific action undertaken due to FLAG’s assistance resulting in tangible business developments and growth. Summarized below, by FLAG partner, are six such success stories.

ACDI/VOCA:

- Client ZET, a Varna based honey and bee pollen producer, stated that their participation in a combined USA trade show and study tour impacted the entire development and growth policies of their company. Having seen and discussed first-hand technical and marketing issues with USA based producers and importers, ZET implemented the following: 1) changed the production technology to increase quality, consistency and control over the final product; 2) introduced a new, branded organic product line “Frodo”; 3) es-

- established a policy of controlled growth via gradual product line/market expansion with a test marketing component.
- Varna based client Bulagro Agriculture received multiple interventions including USVE TA (in fertilizers, irrigation and production areas), training, and GTN registration. The tangible results of the assistance were as follows: 1) the USVE TA resulted in a 2-3X reduction of costs by switching to liquid fertilizers, an increase in the arable land cultivation area leading to increased rental income to farmers, retention of 20 jobs, introduction of GMP; 2) the training seminars, of which company managers attended 2-3 annually, provided them with specific industry information, particularly regarding the warehouse receipts system program and led to Bulagro's adoption of the latter; GTN registration occurred in July 2002 and has already yielded three possible contacts that are being pursued.

IESC:

- Client Brilliant, an apparel company based in Veliko Turnovo, received IESC local consulting TA twice during the period January –July 2002 in the areas of technical production planning, organization, quality control, worker motivation, and HR training. The major results realized from the assistance were increased productivity/quality control and a decrease in worker attrition. More specifically the TA allowed Brilliant to achieve: stabilized product quality/control; regularization of production work flows, enabling Brilliant to smooth out seasonality variations; a 20% increase in production capacity utilization; a restructuring of the technical staff into teams with leaders vested in decision-making; an overall improvement in the work ethic achieved through establishing worker incentives coupled with greater staff motivation due to the aforementioned organizational restructuring.
- Client DARS, a Burgas based auto dealer/service center and separate print house: 1) built a Mercedes dealership and service centers based on implementation of strategic business and marketing plans recommended by USVE TA, resulting in 26 jobs; 2) developed a new print house business increasing jobs from 5 to 120 based on USVE TA in product development, marketing, sales and HR reorganization.

UNIVERSITY OF DELAWARE:

- Client Planex, a Varna based construction business, was able to increase their loans from 80,000 to 3,500,000 leva and negotiate a 2% annual discount on 1,500,000 leva based on a UD finance/credit seminar focused on loan preparation, presentation and negotiation. The UD seminar manual is their financial "Bible".
- Client Happy Bar & Grill, headquartered in Varna, is a fast food chain that has received multiple interventions from UD and IESC. UD training to Happy's sales force focused on the development of their selling skills, communication methods, and overall performance motivation based on American practices. This training directly impacted on Happy's success and dynamic growth, both in sales and employment (1300 vs. 45 at the outset). Happy is very profitable and has now graduated out of the SME category.

4.3.5 Financing / Credit Are Enhanced by Technical Assistance to the Surveyed Firms

The sample unanimously recognized the importance of technical assistance in the development and growth of their businesses and proper utilization/optimization of any credits or financing support received. Private capital was the primary financing for 56% of the surveyed firms; of those, many firms participated in trading activities either at the commencement of their businesses, and/or as an ongoing business subsidiary, to generate cash flow. Foreign donor project funding and supplier credit were next in importance, followed by bank credit. Only the larger surveyed firms, with steady cash flow, had no problems obtaining bank credit and meeting the terms. For the average SME, it was a difficult and onerous process. The Bulgarian banks' requirements include substantial collateral, high interest rates for short to mid-term loans only, excessive bureaucracy and documentation that most SMEs cannot handle.

4.3.6 The Role for Market and Trade Development Assistance Could Be Expanded as SMEs Develop

Awareness and utilization of the TDC trade assistance, business-to-business connections and investor relations contacts, are lower than expected based on interest indicated. Only 14-33% of the surveyed firms are using these types of assistance, and many firms were unaware of their existence. However, this may well reflect FLAG's policy of marketing such services only to those SMEs that have the capacity to benefit from them and implement accordingly. Nonetheless, there is a definite interest in and need for these services, particularly as firms become more sophisticated. A FLAG marketing brochure that clearly explains the organization, services, value, departmental interrelationships and procedures is really essential, particularly if fee-based services are to succeed.

4.3.7 Awareness and Utilization of the GTN Service Could Be Increased Among Clients

Among the surveyed firms, only 14-17% were utilizing the GTN service. Indeed many respondents were not aware of the GTN, by its formal name, when first asked about it. Additional explanation was required before those firms aware of the GTN responded affirmatively. In fact, there appeared to be confusion or uncertainty by many firms about the exact nature and benefit of the GTN service to them. But following the evaluation team's description of it, many firms expressed an interest in the GTN. Again as in point 4.3.6 above, this situation may reflect FLAG's policy of narrowly targeting such services to selected firms coupled with the relatively recent introduction of this service under the FLAG program.

4.3.8 Attitude towards Fee-Based Consulting Services

In principle, the surveyed firms are open to engaging fee-based consulting services with either an all expatriate or mixed foreign/Bulgarian consultants team. Willingness to pay for consultancies is contingent on availability of funds, fee rates and schedules, type of service/expertise and perceived bottom line impact. Most managers interviewed perceived this to be a delicate issue and indicated they would rather not pay. To date, "contributory" fees or in-kind payments have been charged for many of FLAG's services but are not at levels that would enable FLAG to be sustainable.

4.4 Survey Assessment of Enabling Environment – Key Macro Issues

The following summarizes the key issues unanimously perceived by the survey sample as critical to their continued survival and ability to effectively compete, grow and expand their businesses profitably in a competitive environment. These constraints are consistent with those cited in the FED's CY 2000 SME Survey as well as in the evaluation team's interviews with other donors and organizations.

4.4.1 Access to Credit/Finance

Insufficient access to credit and financing with reasonable terms and requirements, particularly from Bulgarian banks, is considered a critical constraint to SME development. The majority of surveyed firms strongly criticized the overall loan process including terms, collateral requirements, timing and scheduling delays among other areas.

The Bulgarian bank loan terms are considered onerous for the average SME. Interest rates average 17%-19% annually, and long-term loans are virtually unavailable to SMEs, other than traders. Loans obtained were primarily used for equipment purchase, building construction/repair and working capital. Collateral requirements are significant (125 –300% according to some SMEs) and terms are short (usually one-two years maximum). Additionally, the loan process from initiation to disbursement is too long, burdensome and confusing for the average SME. This suggests that the educational and interactive dialogue be continued between banks, business and the government on their respective roles, needs, relationships, responsibilities to promote improved understanding and improved credit access. FLAG has sponsored such training conference/workshop combinations previously. Some donors, in particular the EBRD, are now addressing these issues through banking programs specifically related to SME lending.

4.4.2 Lower Demand Due to Continued Decrease of Purchasing Power

Lower demand has an obvious negative impact on consumption and sales. That situation, in turn, impacts on the SMEs' employment levels when production decreases are necessitated by lower sales. The impact of lower demand is felt most strongly by those SMEs focused on the domestic market and therefore is one of the key reasons for preparing SMEs to export. The overall economic environment must also be addressed at the GOB policy level to formulate and implement specific approaches to improve the enabling environment.

4.4.3 Legal and Judicial System Bureaucracy

The lack of uniform, transparent laws that are consistently enforced at both the regional and national levels is considered a significant impediment to development and growth of an ethical, formal SME sector. Without this, private firms are at a distinct disadvantage versus firms that are state-owned or operate in the gray economy. Laws regarding taxation, licensing, export/import trade, etc. often penalize rather than encourage development of an ethical private sector. Additionally, the red tape, documentation and time requirements to obtain information, licenses, etc. are extremely burdensome for the average SME, which has limited management resources to pursue these activities. One agribusiness firm stated that they are bounced back and forth from the regional to the national branch of the Ministry for virtually every request they have, and in the end they have received no tangible answers or direction.

The lack of a properly functioning, independent court system with teeth to deliver results is another impediment. Currently companies do not have recourse to a viable judicial system that would enable them to pursue breached contracts, default on payments, among other areas.

4.4.4 Unfair Competition

Uncontrolled trade, in the form of the gray economy, has led to unfair competitive advantages, which jeopardize the establishment and commercial viability of a struggling private sector. Furthermore the government also suffers from loss of revenue sources. As an example, some of the survey sample indicated that licenses are often awarded quickly to those in the gray economy while companies that operate legally may be significantly delayed in receiving licenses, resulting in monetary and time costs. The avoidance of tax payment by the gray economy further distorts the competitive environment and disadvantages the formal SME sector.

4.4.5 GOB Policies and Governance

The solidity of a transparent, multi-party democratic government with strong political, economic, financial and regulatory systems in place is critical to the overall continued well-being of Bulgaria, its people and its ability to integrate into the global community. The aforementioned is essential to attracting foreign investment and strategic alliance partners who bring the capital and know-how critical to the private sector and SMEs.

The GOB policies and governance are also important underpinnings to attracting and keeping the younger, forward looking generation who have the necessary intellectual capital to turn this country around. They won't stay/return if the current government is, or is perceived to be, perpetuating the former political system. And that is critical to USAID's and the donor communities' ability to sustain programs through local Bulgarians – individually and institutionally.

5. FLAG PROGRAM EVALUATION FINDINGS

5.1 Performance Indicators

The reporting system at FLAG is and has been outstanding. The R4 reports provide an excellent overview of program performance thereby making another performance evaluation redundant. Instead, the team attempted to identify changes that have affected or will affect FLAG's future program performance in support of USAID strategic objectives. Examples would include changes in: the domestic and global business environment; SME sector needs and priorities; government priorities, policies and structural reform measures; national and regional trade situations; levels and types of donor assistance; etc.

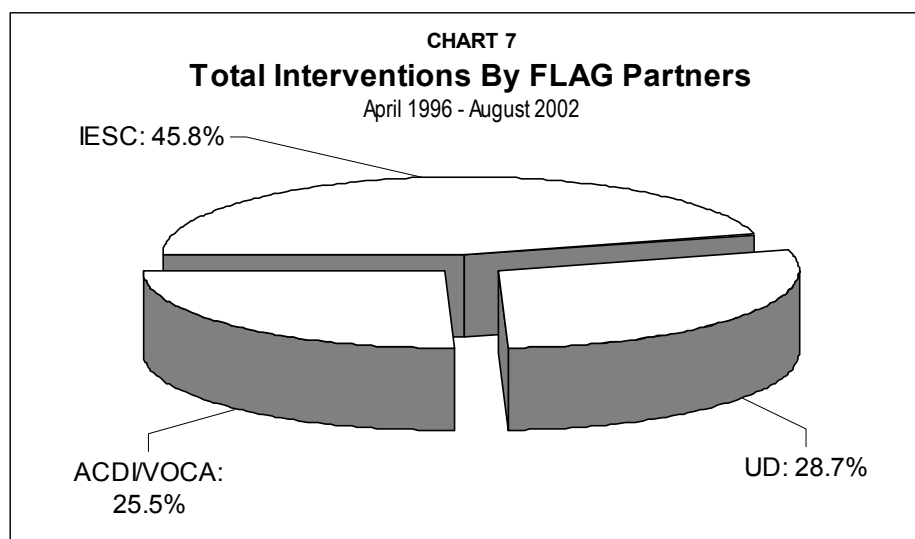
With the exception of data on jobs created and retained, which is not a very accurate indicator at the company level, all other indicators are readily traceable.

- \$25.5 million committed as a result of 39 business plans developed for financing private firms
- 24,984 jobs created and retained
- 15% increase in exports
- 12% increase in productivity
- 13% increase in domestic sales

- 87 companies introduced to international management standards (ISO 9000, ISO 14000, GMP), with 31 of them already certified.
- 560 firms adopted Western style business practices

During the field trips and company visits, the evaluation team attempted to verify some of the performance related information recorded in the 3-month, 6-month, and 12 month evaluation forms reported to USAID by the FLAG partners. In some cases where the intervention was recent, respondents were able to verify the accuracy of recorded information. However, the evaluation team noted that the evaluation forms are often filled out by company executives who, because of their workload, would not usually be able to recall specific figures after 6 or 12 months. To ensure the accuracy of information contained in evaluation forms, FLAG may wish to consider sending a dedicated staff person to verify and collect data at six-month intervals, cost considerations permitting.

An indication of individual FLAG partner's contributions to FLAG results and outcomes, as measured by that partner's share of total interventions, is given in the following chart. (Chart 7).



Source: USAID/Bulgaria and FLAG Report Database

5.2 Client Selection Criteria

The criteria used for selecting recipients of FLAG assistance are key for the success of the entire FLAG program. When FLAG started in 1997, eligibility criteria included: majority private ownership; one year of operating history; minimum of ten full-time employees; history of (and potential) for above average growth within the sector; fall within one of the targeted sectors (construction, tourism, light manufacturing, financial services, consulting, communications); willingness to work with FLAG. A somewhat different set of criteria was established for associations, which became target clients of FLAG in 1998. The core criteria were: majority of members are private enterprises; the association's members fall within, or cross-cut, at least one FLAG priority sector (agribusiness and food processing, tourism, light manufacturing or engineering, financial services, information technologies and communications, and consulting); sustainable long-term vision and strategy in place; capability of building local consulting capacity; strategy aimed at policy reform and development of a competitive business environment. (See Chart 8 on Evolution of FLAG Indicators). The set of criteria for target firms did not change much at that time, the only change being adding some sectors to the list of priorities.

Presently the major eligibility criteria focus on company growth potential and export orientation. The change of client selection criteria followed the change in program strategy to target high growth potential clients within the country's competitive clusters. This universe of companies is not the microenterprise type and represents between 2-14% of all operational SMEs. In terms of readiness to accept technical assistance programs the situation is much different than in the pioneering days of FLAG in Bulgaria. FLAG is no longer the sole assistance provider in the field. There is competition for good quality clients, coming from much bigger and better funded programs of the EU. The fact that FLAG continues to work with such high quality companies in itself is recognition of its high professionalism and the credibility it has developed in the market place. With respect to future program design issues, USAID should recognize the new competitive program operating environment.

5.3 FLAG Program Model and Its Evolution

The FLAG model is unique in its concept and operation. The model's major operational feature lies in the establishment of a collaborative structure of USAID contractors/grantees. This structure improves coordination of support activities, optimizes resources (both human and monetary), and streamlines monitoring/reporting efforts both for the partners and USAID. By enabling the partners to work together in a consortium while also maintaining their individual contracts/grants, the FLAG model confers an equal status on each partner. This is an element that all the partners cited as critical to the model's operational success.

Other distinctive features of the FLAG model include: the use of USVEs selected by the home office of Business Volunteer Providers, which offers a roster of over 14,000 experts with multi-faceted, industry-specific expertise; and a respected "brand name" that has become a symbol for American excellence and know-how in Bulgaria. In addition, FLAG has a highly successful management team with an extensive contact network in the Bulgarian business community. Over the years, they have built a track record, a reputation for professionalism, and credibility with SME enterprise managers.

Since 1997, the model has undergone a series of changes, in part because of changes in the USAID strategy, and in part because of changes in the country business environment and the structure of the FLAG organizational partnership. In addition, FLAG is facing new competition for quality clients from other donor programs.

5.4 Governance and Organizational Structure

The evolution of FLAG's governance and organizational structure is depicted in Chart 9. As the number of FLAG partners has been reduced from seven (1997) to five (1999) to three (2000), the structure has been simplified. The most important changes, made in 2000, pertain to the abolishment of the Marketing/Screening Committee, reduction of personnel in the ADS unit from three to two, and reduced partner interaction at the level of the Diagnostic Committee. These changes were made necessary by increased competition for clients and selective demand for services. Each partner does its own marketing, without validating the selection of an assignment or client with the other FLAG partners.

CHART 8
Evolution of FLAG Indicators

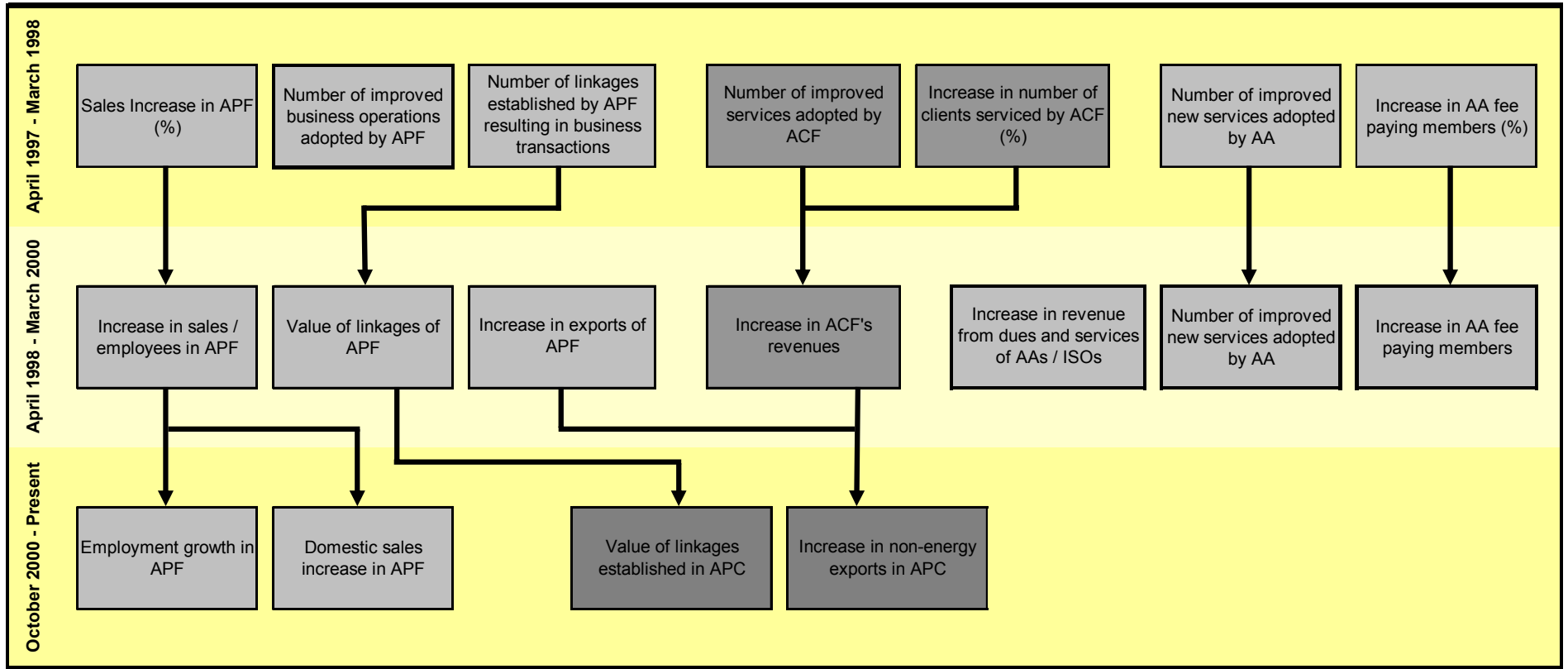
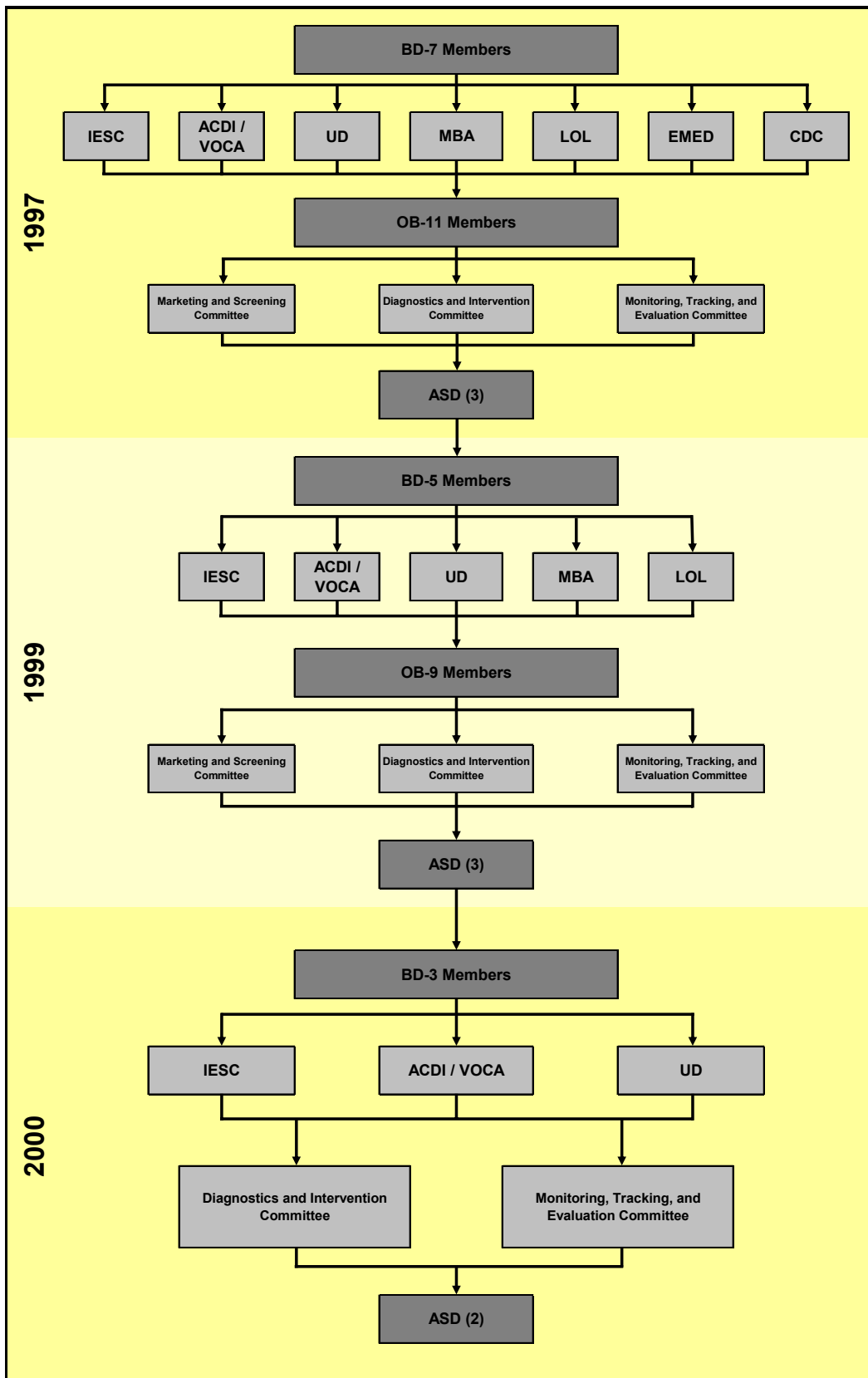


CHART 9
Governance and Organizational Structure



5.5 Services in Demand

FLAG is putting strong emphasis on the development of regional and worldwide trade linkages and follow up activities. Cluster approach assistance packages, covering areas of key importance and being of high demand and proven effectiveness include:

- Strategy and market development
- Business plan preparation, review and evaluation
- Export product development and export promotion
- Implementing quality standards - ISO, GMP, HACCP certification processes
- Just-in-time consulting
- IAS, CFA and management training
- Facilitation of joint ventures with Western companies
- Participation in trade shows - business to business contacts
- Access to short-term and working capital credit
- Productivity improvement and production restructuring

The evaluation team paid particular attention to identifying the optimal mix of services that enterprise managers considered essential for addressing current and expected constraints on SME development. While most SME managers are pragmatic and would like to link a technical assistance project to specific, measurable outcomes, the emerging consensus is that there is a need both for services producing tangible results, such as jobs or sales increases, and for “soft” services related to training or production efficiency improvements.² While a focus on the bottom line must remain a guiding principle for FLAG, it is the market and demand from paying customers that should determine the precise mix of FLAG offerings in the future.

5.6 Program Impact

FLAG’s database shows that the following results have been achieved by the program, from its inception to date (except where otherwise noted):

- 1,432 technical assistance projects were delivered to FLAG’s client SME industry clusters and BSOs;
- \$44,967,838 worth of joint ventures and business linkages were established;
- 54 associations were assisted in strengthening member services including improved advocacy efforts on members behalf, which led to the adoption of five SME-related laws;
- Development of a sustainable network of BSOs was, and still is, greatly enhanced by FLAG’s support activities;

² For example, one FLAG client interviewed by the evaluation team, a garment manufacturer, was able to trace most FLAG assistance interventions to tangible outcomes, although the results of some of the services provided were not immediately measurable. This family-owned company was started in 2000 with ten employees, none of whom had any background or skills in apparel manufacturing. Following the initial FLAG assessment and training, the company tested 70 people, of which 30 were hired. After a second FLAG intervention, which addressed the company’s immediate needs for production training of operators and foremen, another 40 employees were added to the payroll. After the third FLAG management training intervention, in 2001, the company expanded to 100 employees. A fourth intervention on production optimization and cost effectiveness is currently underway. Thus, FLAG facilitated the creation of 100 new jobs over a two-year period, primarily through training interventions.

- 8,203 female employees and 141 woman-managed businesses received assistance through various FLAG support activities, in FY 2001 alone.

5.7 SWOT Analysis

Based on the field trip interviews and relevant desk research on the SME environment and assistance in Bulgaria, the team undertook a brief SWOT analysis of the FLAG program.

5.7.1 Threats and Opportunities

In the process of defining FLAG threats and opportunities the evaluation team relied on data from the field interviews and desk research, rather than data from a full environmental screening. The topics surveyed include development challenges, the business and macro environment, the SME sector in Bulgaria, and Government policies on SMEs.

Development challenges. In addition to the transition specific, quasi-generic issues, like accelerated privatization, banking reform, land-related reform, transparency and anti-corruption measures, issues relevant to the strengthening of the SME sector in Bulgaria in general, and the FLAG program in particular, pose particular challenges, such as: (1) how to increase the average life span (survival rate) of SMEs, which currently stands at 2.5 years; (2) how to ensure the growth and profitability of SMEs in an economy in which the private sector dominated by monopolies; and (3) how to help increase the contribution of the SME sector to GDP?

Without such growth, an imminent sector consolidation will perpetuate an already strong monopoly situation, leaving the surviving SMEs to compete in a shrinking market, with little chance to move up in the supply chain. There is a great opportunity for FLAG to provide new services in support of private sector development and to facilitate new linkages within the domestic supply chain in support of SME growth and profitability; in addition, increased demand for export-related technical assistance will boost demand for FLAG services.

Opportunity: New targets for customer base

Threat: Service mix in need of renewal

The business and macro environment. According to enterprise managers interviewed, among the most pressing obstacles in the macro and business environment are tax burdens, access to finance, and tariffs, leading to loss of export markets. At the business environment level, the supplier status and onerous contract terms are considered prohibitively expensive for sustained SME participation. As already mentioned, any macro distortions are likely to threaten vigorous development of the private sector.

Threat: Further macro distortions

SME sector contribution to GDP. According to ASME, SMEs account for 99 percent of all Bulgarian enterprises but contribute only 32 percent to GDP. The opportunity for FLAG lies in identifying and targeting as clients a number of promising second tier companies with high growth potential, to help them grow and increase their contribution to the economy. According to the Sofia Institute of Market Economics, approximately half of all registered SMEs are dormant or have been set up for tax purposes, and only about five percent – roughly 5,000 companies, would constitute clusters of competitive Bulgarian SMEs.

Opportunity: Redefine FLAG market size, client universe and client profile

SME policies. According to the head of ASME, FLAG activities are fully consistent with Bulgarian Government policies on SMEs, especially with respect to competitiveness. Thus FLAG should continue to work with and develop competitive clusters of SMEs. Some of the managers and government officials interviewed questioned the definition of competitive clusters. The FLAG database has the potential to contribute critical information to support policy decision making by the Bulgarian Government.

Opportunity: Improve utilization of existing information database to support policy decision making at the Government level

SME donor assistance. As mentioned in the text, FLAG was the pioneer in providing firm level assistance to Bulgarian SMEs. In the last few years, other donors have entered the field, in particular the European Union and GTZ. In view of the much reduced client universe and real competition for the best program clients, enterprise managers are faced with multiple offers for assistance, which, in certain instances, may lead to non-transparent selection of assistance providers. As FLAG seeks to become a sustainable and commercially viable organization, it will be competing for clients with major donor programs. This challenge is further exacerbated by the fact that many of the most viable SMEs are very adept at obtaining financing and technical support from multiple donor sources and consequently may see little need or benefit in paying for such services.

Threat: Competition from other programs, rent seeking enterprise managers.

5.7.2 Strengths and Weaknesses

Based on both desk research and information gathered through direct interviews with managers, government officials, and donors, the evaluation team reviewed FLAG's strategy, mix and differentiation of service offerings, competitive advantages, revenues, and management team.

FLAG strategy. The existing FLAG model of a team of contractors/grantees operating as a consortium, but within individual contracts, and targeting clusters of SMEs at the firm level, was initially expected to produce synergies in the form of streamlined communications and reporting, multiple interventions, and more cost effective offerings. The evaluation team found that the expected synergies have not materialized and that market pressures are forcing the FLAG partners to specialize, thus reducing further opportunities for joint interventions with a single client. The services offered have also become more specialized and the costs of disbursing the services have increased accordingly.

FLAG is well known and respected throughout Bulgaria by existing and potential clients, as well as by other organizations and donors, for its support activities, implementation of same and results achieved. The FLAG Program is associated with American know-how and excellence that is delivered by both the USVEs and local consulting staff. The unexpected result is that FLAG has become a "brand name" in Bulgaria.

Strength: FLAG brand name – American excellence and know how

Mix of services. Over time, the mix of services offered by FLAG partners has evolved from generic business planning exercises to sophisticated programs (e.g. the grain s receipt program) and

specialized services (e.g. production operator training , production automation). FLAG is able to provide these specialized services because of its ready access to practical and industry-specific American experience provided by USA Volunteer Executives/Experts (USVEs). In the firm surveys, this was cited as the single most desirable and valuable type of assistance demanded, currently and in the future. In addition, the FLAG partners have proven themselves over the years to be very flexible and responsive to opportunities in the SME environment by tailoring services to an existing demand, or exactly at the time assistance is requested – this “just in time” consulting is particularly valued in seasonal industries such as garment and textile manufacturing.

Strength: Multi-industry expertise through home office access to USVEs

Strength: Flexibility -- Just in time consulting

Strength: Demand driven interventions and high value added services

Revenues. The FLAG partners derive their revenue from the existing USAID contracts/grants and from cost recovery efforts which involve the client companies. The revenue stream of FLAG partners may shrink in the next program cycle, due to expected changes in the country program and the problematic future of ambitious cost recovery programs, e.g. most surveyed managers didn't think they could afford or would be willing to pay consulting fees for FLAG services.

The FLAG partners have been operating on rolling 18-month extensions of their respective Co-operative Agreements with USAID since inception. Consequently, FLAG's ability to plan definite long-term activities and support interventions is limited by that timeframe. This can result in missed opportunities on several fronts. For example, most major trade shows require financial commitments at least 12-18 months in advance to obtain desirable locations, discounts, promotion benefits, etc.

Another issue affecting the program revenues is the home office overhead for each FLAG partner is estimated to be a minimum of 20%. This in turn directly contributes to a higher cost of program implementation. And to the extent that FLAG increasingly competes with other donors and consulting entities for its clients, this overhead decreases the cost competitiveness of FLAG.

The high volume of FLAG interventions is also a burden on resources. FLAG reports implementing 1432 technical assistance projects from inception to date, an average of over 286 projects per year. Obviously the number of projects was higher at inception when there were 7 partners versus more recently under only 3 partners. Nonetheless, this large volume of interventions results in an emphasis on breadth versus depth of coverage.

Weakness: Short planning cycle (18 months)

Weakness: High number of interventions

Weakness: High overhead charges

The management team. Private sector companies place an enormous amount of weight on the quality of management teams. For venture capitalists and bankers, for example, the most important factor in the decision to invest or lend to a company is the quality of the people. The Directors and staff of FLAG have worked together since its inception and developed into a very professional indigenous team of experienced managers. They have overcome early obstacles, associated with the integration of numerous separate organizations, to operate collaboratively and individually in fulfilling the objectives of the FLAG Program and their respective Cooperative Agreements. Furthermore, they have developed strong contacts throughout Bulgaria that are of mutual

mutual benefit in identifying potential clients and promoting both joint and individual support activities.

Strength: Experienced, professional management team

5.8 Critical Success Factors of FLAG Assistance

The following aspects of FLAG's assistance activities have been critical to the Program's overall success in achieving impact and tangible performance results at the SME level.

- USVE and local consulting TA, study tours, trade shows expose FLAG clients to “practical” Western industry-specific expertise, market information, and up-to-date industry data; state-of-the-art technical and functional skills; advanced industry technology; and years of executive experience. This exposure and exchange of ideas speed up the development process for Bulgarian firms. The result is faster growth and reduction of costs, both in money and time, due to the avoidance of mistakes based on “lessons learned,” improved work ethics and market orientation, and behavioral change at both the worker and managerial levels.
- Training, in all subject areas, was a valuable tool for introducing recipients to new ideas, procedures, current information/data, etc. that could be implemented at the firm level. The written manuals, disseminated at seminars, are universally used as step-by-step reference guides to the execution of specific programs, from business and marketing plans to bank/finance credit applications. Furthermore the overall managerial skill level is elevated; that should ultimately lead to improved business performance.
- ISO/HAACP/GMP training improves worker productivity, knowledge and performance as a result of the rigorous qualification process, and increases export potential due to an improved product quality image resulting from the adoption of international standards and a demonstrated seriousness to export.
- The TDC, GTN and Buying Offices support identification of and access to business contacts, export information, and facilitation of contract negotiations that can lead to increased export sales potential.

Flexibility, just-in-time consulting, and thorough needs assessment to ensure that the assistance is tailored to specific development constraints can also be considered factors of FLAG's success. The evaluation team found that, in the context of identified constraints on the development of Bulgarian SMEs, FLAG has been most successful in providing solutions to address low market demand, expansion to new markets, and new product development, in addition to providing industry specific training skills.

The most successful FLAG projects – including such showcase companies as Sanita, Pan D'Or, and Happy, contained strategic or marketing plans to enhance enterprise linkages within the supply chain, be they domestic or export. Other successful FLAG projects focused on enterprise restructuring and related industry training. Functional training to strengthen financial management or sales and marketing skills was also important. In a category of its own has been the grain warehouse receipts program designed to enhance access to short-term (working) capital for agribusiness companies.

5.9 Program Sustainability

In the past, the issue of sustainability has been considered in relationship to associations. The current thinking could include the continuation of the FLAG brand by the privatized partners operation either before or after the phase out of the USAID country program. This means that there would be a transition period during which USAID might consider continuing some level of support for FLAG, as discussed in Section 6.2 below.

5.10 Relationships

USAID. Initially, FLAG would jointly discuss and agree with USAID on indicators and targets, based on USAID strategy priority areas. Also, FLAG and USAID have joint presentations for SMEs and joint promotion of SME-focused activities. In addition, USAID relies heavily on the FLAG Program as a strong information dissemination channel for USAID-funded activities.

Other Donors. There is a donor coordination initiative, chaired by Deputy Minister Kassidova and the USAID Resident Representative. Some joint efforts with the GTZ program were not very successful, due to mismatching of FLAG local consultants with German ones. FLAG and UNDP programs on job creation and retention complement one another. The EBRD has provided funding to some large FLAG projects, such as the warehouse receipts system program.

Government of Bulgaria. FLAG was developed as a direct firm level assistance program without any government level counterpart, because that was the prevailing thinking at the time of inception. The experience and the historical knowledge on SMEs accumulated by FLAG are an invaluable resource for policy decision makers and there should be a policy link, where all this knowledge and expertise of FLAG can be put in use. The competitiveness initiative sustained by USAID through MSI and Austin Associates worked with ASME and FLAG in identifying the competitive clusters and their specific characteristics. In particular, ACDI/VOCA developed a paper on the grain sector and IESC developed a paper on the apparel sector.

The evaluation team met with the head of ASME, Iskra Stancheva, who was highly appreciative of the FLAG program and considers FLAG to be a unique type of partnership. She characterized FLAG as very practical, well positioned, and balanced in terms of supply and demand. She spoke highly about the American approach of providing direct assistance to enterprises, which avoided overburdening governmental structures. She underlined that “FLAG is an excellent model of results-oriented assistance.”

6. CONCLUSIONS AND RECOMMENDATIONS

In evaluating conclusions and recommending future options regarding FLAG’s continuation and its most appropriate structure, the following points should be born in mind. The SME environment, and donor support thereto, has changed substantially since 1997 when FLAG started. At that time and for many years, FLAG was virtually the only project focused on the development of SMEs through technical assistance programs. While FLAG is still the forerunner in this area, it is entering a much more competitive situation with more donors and consulting service organizations offering SME assistance. This sets the stage for the following discussion.

6.1 Conclusions

The FLAG Program has successfully met its objectives from inception to date. FLAG has responded effectively to the shifting needs of the SME sector and changes in USAID strategy through the evolution of its model, target audiences, and types of support assistance delivered. The FLAG partners have planned for the expected phase out of USAID's program in Bulgaria and are prepared for transition from a USAID funded project to a self-sustainable entity.

There exists a strong future demand for continuation of FLAG services. This is underscored by the firm survey results, which argue for continuation of FLAG, in some form, rather than its termination. The future demand for FLAG services was very consistent with the current demand both in terms of types of assistance desired and levels of demand. Over 50% of surveyed SMEs requested future support for each of the following: consulting by USVEs and local staff; seminar training; and trade shows and study tours. (Study tours are no longer utilized by FLAG. However, those SMEs who previously participated in them cited the tours as critical to their overall business development and success.) Additionally between 25%-29% of the survey sample indicated future demand for information on business contacts through the FLAG buying offices, TDC or other sources. Up to 29% of the surveyed SMEs desired financing / credit access and information; and up to 17% of the SMEs requested assistance with GOB policies/regulations, both on general as well as industry cluster specific issues. Only 7-8% of respondents indicated a demand for the GTN service. But as noted under the survey analysis point 4.3.7, this may stem from an absence of awareness and understanding of the GTN.

Based on the aforementioned demands, the following suggestions should be considered regarding types of assistance offered under a future FLAG Program, contingent on the model form it takes:

- Continue consulting TA assistance, particularly utilization of USVEs and joint foreign/Bulgarian teams;
- Continue the cluster-specific training assistance, technical and functional approach;
- Consider reinstating study tours, in conjunction with trade show participation, at cluster levels, contingent on its economic viability through fee-for-service;
- Market and promote the TDC, buying offices/contact facilitation as SMEs' capacities to use these services and ability to pay for them evolve;
- Provide training on the GTN component to improve its effective utilization by clients since it does not seem to be fully understood based on the firm survey results.

FLAG must become more like a private sector consulting company if it is to be commercially self-sustaining. First, this implies that the client universe of FLAG, coupled with the number of interventions, must be reduced and focused on those companies having the highest growth potential within their respective industry clusters. Second, FLAG must recapture its costs and earn a profit by charging sustainable rates for its services. Third, the FLAG brand name is a valuable marketing tool that should be continued and promoted among the Bulgarian business community, where it has become a respected symbol of American excellence and know-how.

Based on the survey results, as well as on the many interviews conducted with representatives of government agencies, multilateral development institutions, think tanks, and private sector executives, the evaluation team concluded that Bulgarian SMEs are entering a new developmental stage in a business environment dominated by local monopolies. A series of consolidations are likely to affect the SME sector, and particularly medium-size enterprises, in the next few years. In this new environment, the target client universe for FLAG will consist of enterprises that have dem-

onstrated potential to become market leaders in a given sector. These groups of companies will also determine the types of FLAG services for which there will be demand in the future.

6.2 Recommendations – Four Scenarios

The evaluation team developed four scenarios/options and analyzed them as background information for a go/no go decision by USAID Bulgaria regarding the future of the FLAG program. The implications of each scenario/option were considered in relation to development objectives, the relevant strategic objective of USAID/Bulgaria's Strategic Plan (Improved Business Climate and Private Enterprise More Competitive), program funding, cost effectiveness and efficiency considerations, sustainability, and preserving the FLAG brand name. Consideration was also given to the administrative burden for USAID associated with each option.

The four options are: (1) funding a more streamlined and focused version of the current FLAG model; (2) funding FLAG as a full fledged, locally registered organization; (3) providing phase out funding of the FLAG Program through a final grant; and (4) replacing the FLAG consortium model with a traditional USAID contract management mechanism. Each option is discussed in turn below.

Option 1 – Maintain Funding of the Current FLAG Model, with Some Modifications

The current FLAG model has successfully proven its ability to achieve objectives, respond quickly to new opportunities in the Bulgarian SME environment, and innovate and deliver programs for which there is likely to be strong future demand. Option 1 would preserve a well-developed organizational structure, effective program activities, a highly reputable professional management team, and well established reporting systems, in addition to the FLAG brand name.

Funding

It is not anticipated that Option 1 would produce significant savings, although shortening the funding cycle, reducing program scope, or improving program efficiency through better internal organization should produce some savings. The organizational structure could be simplified by eliminating the Diagnostics Committee (see Chart 9), which is considered to be redundant because each FLAG partner is highly specialized and lacks expertise in the other partners' fields. Suggestions regarding the organizational structure apply to all four options.

Sustainability

There are two key disadvantages in supporting the current model, both of which are related to FLAG's sustainability. One is the home office overhead burden of each consortium partner that contributes to a higher overall cost of business for FLAG. Second is that the FLAG partners are American registered organizations that are legally restricted from contracting with foreign donors/organizations by their USAID contracts or grant agreements, thereby limiting their potential to expand.

FLAG program competitiveness could be enhanced by updating the program design and strategy with an improved mix of higher value added services targeted at a smaller customer base. Profitability under this option would be limited by a lack of access to non-USAID donor financing and by the sensitivity of potential clients to fee for service and other program pricing arrangements. There is practically no room to raise fees as long as other donors offer similar services without charge.

Impact

The shift to a qualitative emphasis would force a reduction by up to 60 percent in the number of annual projects per FLAG partner. Thus, if currently a FLAG partner delivers about 120 projects a year, under Option 1 the number of new projects per partner would be reduced to 50-60 projects/year, with a simultaneous increase in high-value added services.

Under this scenario, the total number of new FLAG clients would decrease to less than 200 companies, a number which compares favorably with similar donor programs. For example, the GTZ project in Bulgaria has advised 200 companies in the last three years, or around 70 clients annually. This technical assistance program, funded by the German government, has an annual budget of approximately \$3 million and focuses on serving clusters of competitive “winner” companies.

FLAG Brand

Option 1 would ensure the continuity of the FLAG brand name for the duration of another funding cycle, giving the Mission and the FLAG team additional time to prepare the “leave-behind” strategy. During this period, the Mission might want to consider conducting a FLAG brand-building campaign to include additional elements related to the U.S. image abroad and USAID/Bulgaria’s graduation strategy. With its strong brand name recognition, the FLAG organization may also be a suitable vehicle for a pilot exercise to assess the feasibility of establishing an American Public and Commercial Diplomacy Center in Bulgaria, which would focus on post 9/11 issues.

Option II – Fund FLAG As A Full-Fledged Locally Registered Organization.

Each of the FLAG partners has already established a local subsidiary in anticipation of USAID’s phase-out from Bulgaria. Under this option, FLAG would become a legally registered Bulgarian organization, rather than an American one. This would allow FLAG to retain its current structure, with all the attendant benefits thereof, while offering several important advantages. FLAG partners could subcontract their American counterparts, when American expertise is needed, at a lower cost than the current structure allows. Thus access to such highly demanded expertise would be maintained both for the benefit of FLAG clients and staff. FLAG, as a local entity, would have the freedom to develop and offer new innovative programs that might not be cost-effective, or desirable to the American head offices, under the current model.

Funding

Option 2 could produce savings of up to 25% by eliminating the American home offices’ overhead costs and reducing operational costs. A practical example from a project reviewed by the evaluation team illustrates how such savings could be achieved. The cost of the project was \$12,000, of which \$5,000, or more than 40%, was attributable to home office indirect expenses and field support, travel costs, and database maintenance and recruiting costs. While significant savings could be achieved under this option, there would need to be a clear understanding of the respective roles and scope of responsibilities of the home and field offices.

Sustainability

Under Option 2, the local FLAG organization could contract directly with USAID, other donors, local suppliers and subcontractors, thereby expanding its clientele and enhancing its capacity for achieving self-sufficiency. To be sustainable, the FLAG partners would need to achieve break even through higher leveraging of resources and reduced expenditures. The service offering should bring value for which the client would be willing to pay at rates that exceed the current developmental costs.

Most services offered by FLAG partners should be tailored to produce bottom line revenue increases. Such services include: TA consulting by USVEs and local consultants on (1) company restructuring, product development, production management, productivity and efficiency improvements, (2) training courses in project management, selling skills, marketing, team building, team motivation, and (3) quality management systems and advanced business system models (i.e. CMM-capability maturity models); export development or business development services, facilitating linkages through trade shows and B2B meetings; and agency services and buying offices to promote local manufacturing capabilities and products.

Impact

To have the desired impact, the program would emphasize quality over quantity and identification of models for future replication. For example, the program would focus on developing models for creating sustainable jobs with a lifespan exceeding the average lifespan of an existing Bulgarian company in the SME sector. In addition, because of its focus on competitive clusters of companies, FLAG would develop models of services for revenue and productivity enhancement, export promotion, etc., which could be extended to the entire cluster. To maximize the developmental impact, FLAG could establish linkages with other USAID-funded programs providing technical assistance in the policy area. Through such linkages, FLAG could provide its considerable expertise and accumulated data as background and field data for policy formulation purposes.

FLAG Brand

As already mentioned in this report, the FLAG brand has become a symbol of American excellence and know-how in Bulgaria. The viability and continuity of the brand would depend on quality and consistency of the services offered, the existing and future links that FLAG establishes with U.S. companies and organizations, and existing or future public awareness and brand building programs. In this context, as discussed above under Option 1, the Mission may want to build on the FLAG brand name by incorporating additional elements related to the U.S. image abroad and USAID/Bulgaria's graduation strategy. In any case, FLAG partners should put a brand building and maintenance strategy in place as part of any future proposals.

Option III - Phase Out Funding of the FLAG Program Through a Final Grant.

USAID could provide a "Golden Handshake" grant for 16-18 months that would provide a reasonable transition period for FLAG to evolve into a legal Bulgarian entity. This option would preserve the FLAG brand name and facilitate sustainability of the Program in a private sector setting. The critical dilemma of this option is that USAID would be requiring FLAG, under the terms of the grant, to become a commercially viable private entity, operating unassisted, in the same environment for which the subsidized FLAG was initially created. Success will depend greatly on the managerial, competitive and innovative abilities of FLAG, and whether the consortium model is maintained or dismantled. The ability to access sources of development financing as a local company (as described under Option 2) would also be an important factor to be considered under Option 3.

Option IV – Replace The FLAG Consortium Model With a Traditional USAID Contract Management Mechanism.

Under this option, USAID would revert to utilizing a prime management contractor who, in turn, would engage and manage two or more subcontractors. From the USAID perspective, the advantages could be the simplification of reporting, monitoring and contracting requirements resulting in some time and cost savings. However, the institutional knowledge, experience and excellent working relationships of the FLAG team may be jeopardized or lost when their equal status is eliminated. Furthermore, such an option would require re-bidding the contract, which in turn would lead to substantial costs in downtime, lost opportunities, and operational restart-up expenses.

Summary

The team's analysis of USAID's options for continuing the FLAG program are summarized in the following matrix. Based on the evaluation findings, the SWOT analysis, the SME environment in which FLAG operates, and USAID's near-term goal to phase-out of Bulgaria, the team recommends that USAID pursue Option II, or a hybrid that would support Option II for a defined time-frame and then phase out funding through a final grant as proposed under Option III.

| | <i>Option 1</i> | <i>Option 2</i> | <i>Option 3</i> | <i>Option 4</i> |
|-----------------------|------------------------|------------------------|------------------------|------------------------|
| Funding | Limited savings | Significant savings | Some savings | Some savings |
| Sustainability | High potential | Yes | High potential | Limited |
| Impact | High | High | High | Limited |
| FLAG Brand | Limited | High | High potential | No |
| Administrative Burden | High | High | Reduced in time | Reduced |

Statement of Work

Evaluation of Firm Level Assistance Group (FLAG) Program in Bulgaria.

A. Introduction

The focus of this evaluation will be Firm Level Assistance Group (FLAG) program in Bulgaria, which focused extensive technical assistance towards small and medium sized private enterprises and private sector growth in Bulgaria. The FLAG program is implemented by a Consortium of US PVOs and one university, and has been operational since April 1997. This evaluation should cover and assess program implementation from April 1997 to date. The FLAG program contributes to USAID/Bulgaria Strategic Objective (SO) 1.3 "Accelerated Development and Growth of Private Enterprises in a Competitive Environment."

A.1 Background

In response to a call from USAID to assist Bulgarian private firms to grow in a competitive environment, USAID contractors and grantees came together in late 1996 with a new concept, a focused strategy, and a highly efficient model for providing business services to the Bulgarian private sector. They decided to pool their resources, skills, and experience in order to offer better service to clients and to improve reach and impact. The consortium became known as the Firm Level Assistance Group (FLAG). The organizations developed a team charter, a unique organizational structure, tools, policies and procedures and were funded through individual Cooperative Agreements.

FLAG has worked successfully on facilitating private business growth in target sectors by focusing on such Bulgarian SME problem areas as: limited capability in market-oriented product development, low productivity and inexperienced management, limited market information and access to foreign markets and sources of financing, lack of sophisticated corporate governance and business planning skills, inadequate accounting systems and financial management, and the slow-pace of structural market reform.

To date, FLAG has delivered 1,431 direct technical assistance interventions (1,147 to small and medium-sized private firms, 132 to professional and business associations, 57 to consulting companies, 54 to Intermediary Support Organizations, 26 to privatization funds and holding companies, 15 to pension funds). In addition, FLAG has provided numerous piggyback assignments and assistance projects.

In order to monitor its performance, FLAG developed a well-designed performance monitoring system to provide USAID with data on impact indicators on quarterly basis. The monitoring data shows that FLAG has performed well against targets. Some of the key results achieved under the FLAG program include:

- \$44,967,838 worth of joint ventures and business linkages established;

- 39 business plans have been developed with a total of \$25,514,654 committed for financing private firms in the agribusiness, light manufacturing, construction and tourism sectors
- More than 5,004 new jobs have been created and close to 20,000 jobs have been retained
- 15% increase in exports for client companies
- 13% increase in domestic sales for assisted firms
- 71 companies have adopted international industry standards

Over the years FLAG program have evolved in response to the changing environment. After the initial firm-level technical assistance and training to small and mid-size private firms and newly privatized enterprises through cost-effective services, FLAG focused its support of the Business Associations (BAs) and other Intermediate Support Organizations (ISOs), thus aiming at broader impact through their overall customer base. The lack of thriving private sector in enabling economic environment, however, led to exhausting the opportunities for impact through the Business Associations and the other ISOs, as they practically reached the point of saturation in attracting new members. In response to the changing environment and in an effort to exploit the synergistic benefits of joint operations, in April 2000 FLAG adopted an enhanced assistance approach, aimed at increased impact and an increased return of assistance efforts invested, by focusing on competitive industry groups and cluster-level assistance.

Based on hands-on experience and in-depth knowledge of sectoral comparative advantages, FLAG selected sectors and formed groups and clusters of leading firms to be assisted in enhancing competitive advantages and export promotion through focused and intensive interventions. The ultimate objective of this new effort and approach is to improve competitiveness of these clients, which will result in sizable increases of their exports. In achieving its mission to promote exports, FLAG has established a Trade Development Center, which is now the main service delivery mechanism for promoting trade and regional integration.

A.2 Information Sources

The contractor shall review all project documents and any other additional sources relevant to the evaluation. USAID will provide the Contractor with the following non-exhaustive list of available information sources, to be examined by the evaluation team at minimum as sources of the most essential information:

1. Cooperative Agreements # with UD, IESC, and ACDI/VOCA.
 2. Quarterly Progress Reports on FLAG program implementation
- The methodology of performance monitoring and the reported data will facilitate the evaluation work as the team shall use the data reported without any need to collect it.
3. Annual work plans for FLAG program implementation
 4. Available reports or studies produced by FLAG.
 5. Various conference reports and materials produced under FLAG.

6. FLAG Web site resources and monthly newsletters
7. The 1997 USAID study : “A comparative Assessment of specific aspects of USAID Program to Develop SMES in Bulgaria, Poland, Russia and Ukraine
8. USAID/Bulgaria-funded Survey on FLAG-assisted Business Associations and private firm customers, completed by a local economic research institute in 1998
9. Survey on impediments to Private Sector Growth, commissioned by USAID/Bulgaria to a local think-tank in spring 1999.
10. Most recent USAID surveys and assessments - SME (October 2001 by Jim May), Agriculture (December 2001), etc.

B. Objective of the Evaluation

This evaluation has the following principle purposes:

1. To assess the impact of FLAG program in order to determine whether activities are achieving overall objectives and program scope, and to verify the impact information as collected and reported by FLAG.
2. To examine the FLAG performance, program management and implementation.
3. To assess the overall Efficiency of the FLAG mechanism over the years.
4. To provide recommendations regarding potential future demand and further assistance.
5. To comment on the FLAG program sustainability and replications of benefits to firms

This evaluation should analyze both strengths and weaknesses of the FLAG program. The evaluation team should closely examine various types of activities implemented under the program to determine whether FLAG approach, as currently designed and implemented, is able to effectively address private sector needs as well as assist SMEs and competitive industry clusters in Bulgaria.

C. Statement of Work

This evaluation should address but would not be limited to the following question areas:

- (I) Is FLAG as currently designed and implemented meeting the overall goals and objectives of the program?
- (II) Do implementing organizations and FLAG Administrative Support Division adequately fulfill their managerial and administrative roles?
- (III) What sort of improvements can be made in case of any potential future programs?

C.1 Specific Task/Work Requirements

The team will be expected to provide answers to the following list of specific questions which is not meant to be exhaustive, but illustrate some issues that should drive this evaluation.

(I) Is FLAG as currently designed and implemented meeting the overall goals and objectives of the program?

1. Are goals adequate and achievable within the current economic environment and macroeconomic setting?
2. Are results tangible and realistic?
3. Do program activities address major constraints and impediments for SMEs in Bulgaria?
4. Is the program successful compared to similar programs implemented by other donor agencies?
5. What models could be suggested that would lead to sustainability of the firm level assistance efforts?

(II) Do implementing organizations and FLAG Administrative Support Division adequately fulfill their managerial and administrative roles?

1. How do organizations perform relative to the requirements of their cooperative agreements?
2. Is ADS adequately fulfilling program reporting and administrative requirements in a timely manner?
4. Since inception, how flexible has FLAG been in responding to changing conditions and contingencies?
5. Has FLAG adequately monitored client performance under the program?
6. How successful has FLAG been in promoting FLAG program and in disseminating information?
7. What role has FLAG's US based staff and headquarters played in this program? Had home offices added sufficient value to the program?

(III) What sort of improvements can be made in case of potential future programs?

1. What are the main strengths of the program?
2. What are the major constraints facing the program?
3. How can these constraints be addressed in the design of a follow-on program?
4. What are the lessons learned that can be drawn from this program?
5. How can USAID better use FLAG model in Bulgaria and the region?
6. Is it desirable to continue implementing this program as Consortium type organization? What are the benefits of using a Consortium organization? What are the drawbacks?
7. What are the greatest accomplishments/success stories from this program?

C.2 Evaluation Method

The contractor will conduct a literature review and a draft plan for undertaking the research, which will be submitted to USAID for review. The contractor will not proceed to the next phase until USAID has reviewed and approved the workplan.

FLAG will provide the evaluators with a matrix of the firms assisted, divided by number of businesses by industry sector, year in which assisted, number of TA assignments received, and geographic distribution. FLAG will also provide data on BAs and ISOs assisted, number of TA interventions received and geographic distribution, to be taken into account with respect to related impact on the businesses/Industry clusters without making the BAs/ISOs a target of the evaluation.

The Contractor shall specify and explain the methodology to be used in the initial proposals. Further, the evaluation team in close coordination with USAID/Bulgaria ERGO will finalize the overall evaluation methodology. USAID expects that at a minimum the evaluation team will:

1. Review and analyze existing performance information.
2. Interview relevant USAID staff, implementing organizations, other donor institutions and multilateral agencies working in that area, and a representative sample of client companies that have received technical assistance under FLAG programs.
3. Interview relevant representatives from the home offices (UD, IESC, ACDI/VOCA).
4. Interview various government counterparts and agencies.
6. Conduct a field trip, visit and interview a representative sample of client firms located outside of Sofia.

The evaluation team will select a sample group, that represents each of the factors (industry sector, location, number of TA assignments received, and time of assistance.) FLAG may recommend firms, including both successes and not so successful firms/associations, but the evaluation team will select the final sample to be visited.

Since FLAG has collected significant impact data on the firms and associations, the evaluation team will not repeat data collection on these indicators. The team should see the visits to the firms as case studies that

- a. verify the impact data reported to FLAG and
- b. examine, through the eyes of the firm managers and association/support organizations, the process of how FLAG assistance helped them change, i.e. What did the TA do that helped you, what changes have you made in the way you do business. The outcome is to be able to distinguish between changes made because of the TA and changes due to other factors.

Gender : The evaluators shall disaggregate data by men and women when analyzing the people level impact of the FLAG programs over the years and shall evaluate the different impact of the programs on men and women.

D. Schedule

Approximately three to four weeks are estimated to complete this evaluation with an assumption of a six-day workweek. A proposed work schedule is to be prepared by the contractor, which would be discussed and modified upon review by USAID/Bulgaria.

E. Timing and Period of Performance

Work will be executed in the following stages:

STAGE I (1 week) Preparation in the US – Desk reviews of Documents

Preliminary research and preparation; adjusting tools and methodology, meetings in the US (USAID/Wash. D.C. and headquarters). Development of a workplan for electronic submission to USAID for approval, and subsequent scheduling appointments in country

STAGE II (2 weeks)

In-country evaluation, meetings and writing up draft report. This will also allow including in person briefings and presentation of preliminary findings and recommendations. Analyze results, weigh conclusions and prepare preliminary report of findings for presentation to USAID/Bulgaria.

STAGE III (1 week)

Drafting of final report for USAID review, comments and approval.

This task order is scheduled to commence no later than June 17, 2002. First draft of the preliminary findings is due to USAID/Bulgaria three weeks after the commencement of the task order. Final report is due to USAID/Bulgaria not later than four weeks after the commencement of the task order.

TEAM COMPOSITION AND STAFFING

A team comprised of three US consultants will carry out the evaluation with one of these experts acting as team leader. Additionally, support local (Bulgarian) staff person/s will support the team as an interpreter/s and logistics coordinator/s. The members of the team will be as follows:

- **Team Leader:** Responsible for coordinating and directing the reporting effort, including preparation and submission of the draft and final report. The incumbent should have extensive overseas program evaluation experience, including USAID experience in the Central and South Eastern Europe region, and demonstrated experience in evaluating SME activities.. He/she must be thoroughly familiar with techniques of program appraisal. As team leader, the incumbent should possess excellent organizational and team-building skills.

- Two SME and Private sector experts: Must possess both overseas and evaluation experience and be familiar with USAID programs in the areas of economic growth and SME development. Also, the 2 experts shall possess:
 - a) demonstrated knowledge of and substantial experience working with SMEs in Central and South Eastern Europe;
 - b) knowledge of the business environment in Bulgaria;
 - c) demonstrated experience in organizational development/management, and demonstrated skills in monitoring and evaluation of small business activities. d. experience in SME finance.

These consultants should have a combination of economic background, consulting experience and SME development skills. If possible, these consultants should also have experience in SME finance.
- Interpreter and Logistics Coordinator/s: (The Evaluation team should decide on the permanent or part-time interpreter, one or more persons, depending on the intensity of the interview schedule and, potentially the team language skills in Russian/ Bulgarian). He/she should have knowledge of terminology related to small business activities. He or she will be responsible for translating discussions with Bulgarian entrepreneurs and government officials, as well as any Bulgarian language documents provided to the evaluation team. Experience in simultaneous translation is desired. This person will also be responsible for all necessary actions as a Logistic Coordinator (i.e. schedule, meeting arrangement, transportation, etc.).

DELIVERABLES

The final report shall include an overall assessment of the issues listed in the section “Objective of the Evaluation” and will address the questions listed in the section “Statement of Work”. Other information to be included in the report will be determined in consultation with USAID staff over the course of the evaluation.

The final report shall be submitted to USAID/Bulgaria electronically in MS Word '97 compatible format as well as five hard copies, which will be submitted towards the completion of this task. The outline and format of the report proposed by the contractor shall be approved by the Evaluation Coordinator at the beginning of the evaluation. The evaluation report will primarily be for internal use by USAID project management unit. It may, at USAID's discretion, be disseminated to outside partners if deemed appropriate.

Final Report (product)

The team will submit a final report containing an executive summary, overview, analysis, and recommendation section. A presentation to key USAID staff and draft report will be provided to the Mission prior to the team's departure from Bulgaria. Final version of the report in electronic form (software application compatible with MS Office 97) and five

paper copies must be delivered to Nora Ovcharova at USAID/Bulgaria in Sofia, for USAID Bulgaria review and comments within 10 working days after the submission.

RELATIONSHIPS AND RESPONSIBILITIES

The contractor will report to a team of : Nikolay Yarmov as the FLAG main liaison and Nora Ovcharova as the CTO for this Delivery Order. Designated USAID/Bulgaria staff will review all reports and appointments as necessary.

SPECIAL PROVISIONS

Gender Issues - The Contractors shall evaluate and comment on the different impacts of the FLAG programs on men and women and the methods for measuring these impacts

Work locale and logistics - Work will be conducted in both Bulgaria and the US. The contractor will be responsible for arranging all necessary support and logistics associated with this Task Order.

Languages - All reports by the Contractor shall be submitted in English.

ATTACHMENT 2**FLAG Evaluation Team
List of Contacts*****A. Company Surveys***

| Name | Position | Company | Telephone |
|--------------------------|----------------------|--|----------------------|
| Angelina Veneva | Owner/Manager | Vitosha Fashion | 62 11 02 |
| Elena Alexandrova | Chairman of Board | Magura JSC | 68 61 61 |
| Emil Komov | Export Manager | Magura JSC | 68 14 00 |
| Prodan Prodanov | Owner/Manager | Mercury HC | 66 24 436 |
| Kalinka Peneva | Owner/Manager | Mercury HC | 66 24 436 |
| Christina Dimitrova | Managing Director | Pain D'Or S.A. | 957 1626 |
| Antoine Skandar | Chairman | Pain D'Or S.A. | 957 1626 |
| Kiril Vatev | Manager President | Tandem V Ltd Association of Meat Processors | 915 6024 971 2671 |
| Petya Sechanova | Sales Manager | Bianor Ltd. | 962 4524 |
| Nikolay Palov | Owner/Director | Novotica | 971 8281 |
| Siela Veleganova | Head of Production | Bioprogramme | 936 0750 |
| Dimitar Djendov | Managing Director | Global Consulting | 981 2741 |
| Elena Petrova | Export Specialist | Vinprom Damyanitza | 981 2929 |
| Tomislav Donchev | Executive Director | Hi-Tech Business Incubator | 066 3 4105 |
| Totyutotev | Owner/Manager | Intra Ltd. | 062 00 82 |
| Rumiana Dimitrova | Executive Director | Brilliant Tarnovgrad | 062 43 925 |
| Martin Iordanov | Manager | Top Men | 082 822 775 |
| Dora Dimitrova | Executive Director | Regional Economic Development Agency (REDA) | 052 606 274 |
| Orlin Popov | President | Happy Bar&Grill | 052 255 061 |
| Milan Dichev | Chief Accountant | Planex Ltd. | 052 600 936 |
| Peter Stoev | Head, Int'l Division | SG Express Bank | 052 601 548 |
| Todor Slavov | Sales Manager | Sanita Trading | 052 302 393 |
| Hristina Bokova | Executive Director | Corn-K/Kristera | 052 600 499 |
| Valentin Georgiev | Export Manager | Electa Ltd. | 052 241 444 |
| Nikolay Nankov | Manager | Office Express | 052 630 605 |
| Nedko Malchev | Manager | Bulagro Agriculture | 052 601 656 |
| Zlatina Chotukova | Export Director | Bulagro Agriculture | 052 601 656 |
| Valeri Tzikov | Manager | Zet Ltd | 052 303 219 |
| Dimitar Liudiev | Manager | JLP Ltd | 056 803 280 |
| Dimitar Sabkov | Manager | Dars | 056 843 380 |
| Dimitar Hristov | Manager | Iotovi Dairy | 044 41 283 |
| Maria Georgieva | Microbiologist | Iotovi Dairy | 044 41 283 |
| Dimitar Yankov | Production Manager | Bisser Oliva | 042 600 365 |
| Hristofor Bunardjiev | Executive Director | Bulagro JSC | 042 600 174 |
| Mateya Fratev | Manager | Sunny Fruit Ltd | 032 632 068 |
| Boris Yantchev | Financial Manager | Shegor Ltd. | 032 640 464 |
| Nikolay and Toni Nikolov | Partners | Yanitza | |

B. Other Interviews and Contacts in Bulgaria

| Name | Position | Organization | Telephone |
|----------------------|------------------------------|-------------------------------|------------------|
| Mike Delia | Deputy Director | EBRD | 932 1414 |
| Laura Budreviciute | Associate Banker | EBRD | 932 1414 |
| Lada Strelkova | Dep. Country Manager | World Bank | 969 7236 |
| Galia Kondova | Research Assistant | World Bank | 969 7254 |
| Georgi Georgiev | Field Office Rep | IFC/WB | |
| Marieta Paskaleva | Project Coordinator | GTZ | 965 1013 |
| Martha Ruedas | Resident Director | UNDP | 969 6101 |
| Elena Panova | Project Coordinator | UNDP/JOB Project | 969 6170 |
| Tom Higgins | Director | BAEF | 943 3077 |
| Irina Stancheva | Chairman | ASME | 980 2313 |
| Sophia Kassidova | Deputy Minister | MOE | |
| Krassen Stanchev | President | IME | 934 3648 |
| Antonina Stoyanovska | Director | FED | 952 5798 |
| Ventzi Vassilev | Regional Program Director | IESC/Sofia | 981 7961 |
| Rouslan Abaadjiev | Country Director | University of Delaware (UD) | 987 7913 |
| Krassimir Kiriakov | Country Representative | ACDI/VOCA | 987 9160 |
| Emil Darev | GIDP Manager | ACDI/VOCA | 986 2002 |
| Mariela Kulhanova | TDC Coordinator Agribusiness | Trade Development Center/FLAG | 917 0793 |
| Vanya Teodorova | Head | ASD/FLAG | 987 7913 |
| Nora Ovcharova | AE&PS Manager | USAID/Sofia | 951 5670 |
| Nikolay Yarmov | Senior SME advisor | USAID/Sofia | 951 5637 |
| Katia Alexieva | DepProgram Officer | USAID/Sofia | 963 1219 |
| Ivanka Tzankova | Program Officer | USAID/Sofia | 963 1219 |
| Edward LaFarge | Private Sector Officer | USAID/Sofia | 963 1219 |
| David Lieberman | ERGO Officer | USAID/Sofia | 951 5670 |

C. U.S. Interviews and Contacts

| <i>Name</i> | Position | Organization |
|-------------------|--|---|
| Katherine Sevnice | Group Program Director | IESC Headquarters (Stamford, CT) |
| Sally Iadarola | Vice President, Europe and Asia Division | ACDI/VOCA Headquarters (Washington, DC) |
| Janet Kerley | Monitoring & Evaluation Specialist | USAID Bureau for Europe and Eurasia (EE/PCS/CPSA) |
| Jeffrey Lee | Agricultural Development Officer | USAID Bureau for Europe and Eurasia (EE/MT/SBA) |
| Stan Shumway | FLAG Project Director | University of Delaware |
| Donald Niss | General Business Officer | USAID Bureau for Europe and Eurasia (EE/MT/SBA) |

ATTACHMENT 3

BULGARIAN FIRM SURVEYS FOR FLAG EVALUATION

COMPANY: BIANOR LTD.

| | Beginning FLAG Assistance | End FLAG Assistance or Current |
|--|--|---|
| Date visited | 30/7/02 by K.A. Potter | |
| Location / Person Interviewed | 5 Stracin St. Sofia Ms. Petya Sechanova, Sales Manager By Karen A. Potter | |
| Date Established: Original company | June 1998 as Arexus; Oct. 2001 became JV local office of Swedish firm Framfab which went bankrupt | |
| Current company | Oct. 2002 re-established as Bianor Ltd. | |
| Ownership: Structure Gender | 100% Private 3 Bulgarian partners All men | |
| Assistance Evolution: How learn of FLAG Interventions #, Type, Date Rec'd, FLAG Provider, Any fees/costs paid | Aug. 2001 saw FLAG newspaper ad re IT trade show sponsorship in Turkey; 1 TA Dec. 2001. Mktg. Consultant TA for 1 wk. @firm then 4-5 follow-up visits (1 day or less) during Vol. return visits; also attended website workshops; IESC US Volunteer; Lodging, M&IE fees paid by firm | 1 TA - June 2002 Production Mgt. Consultant 1 wk. to assess workflow schedules, staff tasks, cost efficiencies, quality control; IESC US Vol.; paid lodging, M&IE fees; 1 Conference on intl. Standards ISO, GMP, etc. included public & private sectors; IESC; sm. fee 1 Trade show June 2002 Atlanta SuperCom; IESC; firm paid their travel, lodging, etc. costs & participation fee; planning 9/02 Istanbul Bilishim IT trade show attendance w/FLAG assistance. GTN database registration |
| Assistance: Advantages | Increased marketing/sales exposure to clients | Access to USA technical practical know-how that shortened their learning curve both thru Vol. TA and conference. A-Z support for trade show from booth prep. To client identification & facilitation. |
| Problems Impact/specific results TA implemented | None Mktg. TA – designed/developed website from USVE's concept, strategy, content | None TA yielded org. restructure: establishing separate dept. by 9/02 with improved effi- |

| | Beginning FLAG Assistance | End FLAG Assistance or Current |
|---|--|---|
| ISO/HAACP/GMP | guidelines. | ciency, quality & cost control. |
| Trade contracts | None | FLAG's proposed ISO cert. Bianor's postponing for 1 yr.due to other priorities, also not demanded by clients. Trade show yielded 50-100 prospects that Bianor's already contacted. GTN registration has improved communication w/prospects & helped w/trade show contacts. |
| Needs Evolution: Assistance Rec'd; | Just beginning with FLAG - Firm TA consulting, gen. training | Firm TA consulting, trade shows, more sophisticated mgt/functional training as skill & experience levels >; trade missions Oct.-Nov. 2002 of Israelis to Bulgaria, FLAG's providing contacts, info & performing due diligence |
| Needed not rec'd; | NA | NA |
| Pay fees for which future services; local or foreign consulting | | TA consulting in sales/mktg and for identifying, vetting new projects/clients; mgt. training Pay for local & foreign; Foreign for brokerage type services |
| Other Donor Assistance Provider # Interventions Type, Date Rec'd, Fees Results Pro/con vs. FLAG | None – They've made no contacts | None |
| Critical Success Factors | | Exposure to Western expertise, contacts |
| Investment Plans | | |
| Marketing Plans | | |
| Contracts | | |
| Association Membership Assistance Rec'd FLAG | Nov. 2001 BASCOM (Assoc. of Bulgarian Software Firms), founding member, 35 members FLAG is supporting. One result is formation of Women's IT group within above Assoc. which meets for info exchange, support, etc. | June 2002 IT conf. organized/implemented by FLAG. Focused on development of IT firms & key issues. Both private & public sector attended resulting in dialogue & info exchange. Ongoing communication with FLAG local consultant |
| Other Providers | None | None |

| | Beginning FLAG Assistance | End FLAG Assistance or Current |
|---|--|---|
| Employees: Women Men | 5 – 6 2 3 – 4 | 28 8 - 10 18 - 20 |
| Sales Trend >, < Perform. Reason | Under Swedish partnership, weak performance due to former's financial problems Trend was < under Swedes | 1 st 3 qtrs. 2002 vs. 2001 +60%, profitable. Placed among key firms for sales in rating of top 100 Bulgarian software companies Trend is > New projects, client expansion |
| Products /Services | Software products for gambling/betting on sport events sold on license basis, 60% of sales; Website development internet/extranet 40% sales | New: B2B client customized online solutions; For Japan, manage mobile phone content on licensed basis |
| Raw Materials: Imported/local | | |
| Markets: Domestic Exports ISO cert., impact | Large firms ie. Bulbank, major private national radio station No not necessary or required by clients now | Same 80-90% sales of which 75-80% to Europe, Japan, some to USA Planning to implement next yr. Per FLAG reco |
| Regional Trade: Critical Success Factors | No | No |
| Competition: Domestic formal Domestic informal Foreign | | 1000 IT firms, 400-450 are software firms NA Impt in export mkts. |
| Firm competitive: Advantages Weaknesses | Pricing – maintained original rates Inexperienced management. | Product & technology base (JAVA, IBM prods.), Experience working w/Japan; young, dynamic environment. Inexperienced management. |
| Plant, Equipment Issues | | |
| Channels: Sales / Distribution | Importers, distributors | Importers, distributors |

| | Beginning FLAG Assistance | End FLAG Assistance or Current |
|---|---|--|
| Loans: Amount Terms Source Purpose Impact Repayment status | 100% Private Capital | 100% Private Capital |
| Foreign JV or alliances | Swedish firm that went bankrupt | Want to stabilize & grow sales before other JVs |
| Firm Strengths | Highly skilled, educated (mainly self educated in IT) workforce; no recruitment prob.; young, motivated employees | Same |
| Firm Weaknesses | Lack of mgt. experience – no depth; flow of project mgt. system needs improvement; absence of direct exposure to/interaction w/export clients | Same |
| Growth Opportunities Firm level Industry | | Grow w/current & new client expansion; > exports Same |
| Mgmt Attitude: Toward FLAG Toward Donor TA Duplication of TA | Very satisfied NA NA | Same “ “ |
| Macro Constraints: Economic Political Financial Taxation/Customs Other | GoB not focused on promoting IT sector, investments, or providing org. support facilities Unfavorable tax legislation BSOs should lobby to address these issues | Same constraints |
| Other Issues/Comments | | |

BIANOR LTD. – Interviewed and summarized by Karen A. Potter 7/30/02

ATTACHMENT 4

COMPARATIVE SUMMARY OF FIRM SURVEY RESPONSES BY FLAG PARTNER (ASSISTANCE PROVIDER)

| Partner/Service | Firms | | Related Results % > | | | | | Future Demand | | Critical Success Factors | |
|--------------------------------|-------|----|---------------------|-------|---------|------|----------------|---------------|---|--------------------------|---|
| | # | % | Empl | Sales | Exports | Tech | Mkts./Products | FinAccess | # | % | Based on Firms' Assessments |
| IESC: | 14 | 52 | 43% | 86% | 14% | 64% | 14% | | | | <u>USVE TA, training, study tours, trade shows</u> expose firms to “practical” Western: industry-specific expertise, information,data; technical & functional skills; advanced industry technology; yrs. of experience. This speeds up the development process for Bulgarian firms. The result is faster growth, reduction of costs both in money & time due to avoided mistakes (“lessons learned”), improved work ethic & market-orientation behavioral change at worker & managerial levels. <u>ISO/HAACP/GMP</u> training improves worker productivity, knowledge & performance; > export potential via improved product quality image, mtg. intl stnds, demonstrated seriousness to export. <u>TDC, GTN, Buying Office</u> = Contacts, export information access, contract facilitation that > export sales potential. |
| <u>USVEConsulting</u> - | | | | | | | | | | | |
| Tech/Production | 6 | 43 | | | | | | | 6 | 43 | |
| Mgt., Mktg, Finance | 10 | 71 | | | | | | | 7 | 50 | |
| <u>Local Consulting</u> – | | | | | | | | | | | |
| Tech/Production | 2 | 14 | | | | | | | 1 | 7 | |
| Mgt., Mktg, Finance | | | | | | | | | 1 | 7 | |
| ISO/HAACP/GMP | 5 | 36 | | | | | | | 1 | 7 | |
| <u>USA Study Tours</u> | 1 | 7 | | | | | | | | | |
| <u>Training</u> | 7 | 50 | | | | | | | 6 | 50 | |
| <u>Trade Shows</u> | 5 | 36 | | | | | | | 5 | 36 | |
| <u>GTN</u> | 2 | 14 | | | | | | | 6 | 7 | |
| Buying Office/Contacts | 2 | 14 | | | | | | | 4 | 29 | |
| <u>Financing/Credit</u> | | | | | | | | | 4 | 29 | |
| Cluster Policy Issues | | | | | | | | | 1 | 7 | |
| ACDI/VOCA: | 12 | 44 | 33% | 25% | 8% | 58% | 50% | | | | <u>USVE TA, training, study tours, trade shows, warehouse prog.</u> expose firms to “practical” Western: industry-specific expertise, information,data; technical & functional skills; advanced industry technology; yrs. of experience. This speeds up the development process for Bulgarian firms. The result is faster growth, reduction of costs both in money & time due to avoided mistakes (“lessons learned”), improved work ethic & market-orientation behavioral change at worker & managerial levels. <u>ISO/HAACP/GMP</u> training improves worker productivity, knowledge & performance; > export potential via improved product quality image, mtg. intl stnds, demonstrated seriousness to |
| <u>USVEConsulting</u> - | | | | | | | | | | | |
| Tech/Production | 7 | 58 | | | | | | | 1 | 58 | |
| Mgt., Mktg, Finance | 7 | 58 | | | | | | | 3 | 25 | |
| <u>Local Consulting</u> – | | | | | | | | | | | |
| Tech/Production | 1 | 8 | | | | | | | | | |
| Mgt., Mktg, Finance | 2 | 17 | | | | | | | | | |
| GMP/ HAACP | 4 | 33 | | | | | | | 2 | 17 | |
| USA Study Tours | 2 | 17 | | | | | | | 3 | 25 | |
| Training | 5 | 42 | | | | | | | 5 | 42 | |
| Trade Shows | 4 | 33 | | | | | | | 6 | 50 | |

| | | | | | | |
|--------------------------------|---|----|-----|-----|----|--|
| GTN | 2 | 17 | | 1 | 8 | export |
| Warehouse Receipts | 1 | 8 | | | | <u>TDC, GTN</u> = Contacts, export information access, contract facilitation that > exports. |
| Contacts | | | | 3 | 25 | |
| GOB Policy Issues/Law | | | | 2 | 17 | |
| U of Delaware: Training | 7 | 26 | 14% | 14% | | <u>Training, in all subject areas</u> , was valuable as it introduced recipients to new ideas, procedures, current information/data, etc. that could be implemented at the firm level. The written manuals, disseminated at seminars, were universally used as step-by-step reference guides to execution of specific programs from business & mktg. plans to bank/finance credit applications. Furthermore the overall managerial skill level was elevated; that should ultimately lead to improved business performance. |
| <u>Technical</u> | | | | | | |
| <u>Management</u> | 1 | 14 | | | 1 | |
| <u>Marketing/Sales</u> | 3 | 43 | | | 1 | |
| <u>Business Plans</u> | 4 | 57 | | | | |
| <u>Finance/Credit</u> | 2 | 29 | | | | |
| <u>Economic</u> | 3 | 43 | | | 1 | |
| Financing | 1 | 14 | | | 1 | |

METHODOLOGY

A total of 27 enterprises (26 SMEs and 1 BSO) were surveyed in 9 cities over 9 days; all clusters were represented in the survey. Of that total, the sample distribution by FLAG partner was: IESC – 14 enterprises, 52%; ACDI/VOCA – 12 enterprises, 44%; University of Delaware – 7 enterprises, 26%. These numbers and percentages total more than 100% because they include multiple provider assistance received by several firms. More specifically, if a firm received an intervention from both IESC and UD, the firm was counted as a client of each partner. All numbers and percentages stated in this survey analysis, and the supporting Appendices, reflect the following: 1) multiple interventions by a single FLAG partner; 2) assistance to firms by multiple FLAG partners; 3) firms responding with definitive answers to specific questions asked. Regarding the last point, if a firm did not provide information regarding employment or sales levels, then that firm cannot and is not included in the percentage calculation for that factor. Consequently, percentages may not total 100% in many instances.